

PD-ABN-498

92128

SIAM COMMERCIAL BANK
AGROBUSINESS TERM LENDING

EVALUATION REPORT
Prepared for
U.S. Agency for International Development
Bureau for Private Enterprise

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November 1, 1984

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BASIC PROJECT IDENTIFICATION DATA

1. Country: Thailand
2. Project Title: Siam Commercial Bank Term Lending
3. Project Number (Grant and Loan where applicable): 493-T-032
4. Project Dates:
 - a. First Project Agreement: September 21, 1982
 - b. Final Obligation:
 - c. Project Activity Completion Date (PACD):
5. Project Funding:
 - a. A.I.D. Bilateral Funding (Loan and Grant):- Loan \$2 million
- Grant \$150,000
 - b. Other Major Donors: 0
 - c. Host Country Counterpart Funds: 0
 - d. Siam Commercial Bank - Loan \$2 million

<u>Total</u>	<u>Loan \$4 million and Grant \$150,000</u>
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6. Mode of Implementation (specify contractual arrangement and numbers):
Bank Participation
7. Project Design (A.I.D. and contractor): Bureau for Private Enterprise.
8. Responsible Officials:
 - a. Mission Director(s): None
 - b. Project Officer(s): None
 - c. Bureau for Enterprise/AID: J. Knudsen
9. Previous Evaluation and Reviews (include title, type and date): None
10. Evaluation Team: Ludwig Rudel, Team Leader
Charles Gormly, AID/PRE
Klaus Loewkowitz
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11. Cost of Present Evaluation:
 - a. Direct Hire:
 - b. Contract:
 - c. Other:

TOTAL \$ _____

EXECUTIVE SUMMARYA. Problem and Overview

The inadequacy of term lending facilities for private small and medium scale agrobusinesses in Thailand was believed to be a constraint to the growth of this target group and their ability to contribute to Thailand's development goals, (generate employment, and increase production, processing and distribution of foods and related products).

B. US Assistance

In September 1982, AID/PRE made a \$2 million loan to Siam Commercial Bank (SCB) to be matched by them for on-lending to the target group. SCB used the \$4 million to finance 15 small and medium agrobusiness enterprises.

AID/PRE also made available to SCB \$150,000 in grant funds to train SCB staff in techniques of term lending for agrobusiness (institution-building).

The project was designed to test the hypothesis that IFI's can be utilized effectively to channel term lending on a commercial basis to a private sector target group and thereby achieve significant levels of development impact.

C. Purpose of Evaluation - Mid-Term Review:

- 1) To provide guidance to PRE to allow for corrections and adjustments in the project's management to improve project implementation.
- 2) To offer guidance to PRE and to other Bureaus and Missions in AID with respect to the overall project framework and approach in terms of its replicability.

D. Major Findings

1. The hypothesis is correct - term lending to small and medium scale agrobusiness is an important means to channel private sector resource flows toward important national development objectives. IFI's, if provided with resources and guidance, will finance commercially viable projects that have significant development impact.
2. SCB, the implementing agent did a superb job in project selection and loan processing. It was motivated in large part by a desire to demonstrate that it could perform to U.S. standards.

3. There was a modest but positive effect on SCB's institutional development. The PRE loan, as a follow on to the IFC loan of 1978, probably played a supportive role to SCB's efforts to increase its term lending portfolio, develop procedures, recruit and train staff to evaluate requests for term lending.
4. The initial design of the project suffered from lack of clarity and poor articulation of the project proposes.
5. The development impact resulting from the 15 subloans was substantial. It included more than 840 jobs created at an average loan cost per job of \$4775. 2/3 of the subborrowers are involved in exporting their products; 80% of the borrowers have introduced new technology.

E. Project Design and Policy Implications

See Major Findings 1 and 4

F. Recommendations

1. Project Design

It should be recognized that the Siam Commercial Bank loan project was the first for the Bureau for Private Enterprise. Careful review of the IOP, IP and Project Agreement suggest that PRE should use Agency resources to a greater degree in its project design activities. In particular there is a need to devote more attention to the economic situation in the country. Economists in the Asia Bureau and the Bangkok Mission could have been helpful in this respect. There is also evidence that PRE did not fully understand the small and medium scale enterprises in Thailand that it was attempting to target. While SCB was able to build its portfolio according to the guidelines provided by PRE, there is some evidence that the guidelines did not define the target group PRE really wanted to reach. There are private sector and small and medium scale enterprise capabilities in S&T that could have been tapped for this purpose. Agribusiness credit, particularly in the Thai context is another complicated subject where PRE could have benefited from assistance and, in turn designed a more effective project. The Evaluation Team recommends that PRE give careful consideration to using Central Bureau and Mission assistance in the course of developing its loan/grant projects.

2. Implementation Plan

We believe the Bureau for Private Enterprise should take the time to develop a thoughtful implementation plan which specifies what the Business Advisory Service is all about, how it should function and what grant financed activities should be undertaken to support the process.

IFC assistance could be helpful, since the concept originated with that organization. PRE should then discuss its approach with Siam Commercial Bank and obtain its agreement or incorporate its amendments. All available funds (perhaps \$75,000) should eventually be utilized and the term of the Grant should be extended while funds are still available. Every effort should be made to integrate relevant USAID Thailand Rural Industrial Strategy components into this institution-building process, as these strategies evolve. This will permit the BAS concept to mature over a longer period of time than PRE Grant funds could otherwise allow.

3. Continuity

One should also consider that SCB would be understandably reluctant to establish new procedures and practices for a program of this modest magnitude without any indication of PRE or AID's intention to add new resources to the program once the initial tranche of \$2 million was fully committed. The branch managers have now become aware of this program and would like to offer this facility to their customers. Unfortunately the AID funds are now fully committed. It would be highly desirable to find a means to continue this effort with SCB, in order to consolidate the gains achieved in institution building, and to encourage SCB and perhaps other lenders to press forward.

The PRE loan provides for a two year grace period and repayment over the remaining 8 years. The portfolio of 15 subloans has an average term of 5 to 6 years. Reflows should therefore begin in the third year. The SCB/AID program could be continued without further commitment of AID funds if SCB were willing to utilize loan reflows and match them, perhaps on a 80/20 ratio, with SCB's own resources. There is some indication that SCB might be receptive to such a proposal if this change in the agreement will not result in additional AID audit requirements to be imposed on SCB. Perhaps this second round of subloans can be directed at smaller scale enterprises than the first round.

The project deserves to be continued. The accomplishments to date, particularly with respect to the interest and enthusiasm of the senior officials of SCB for term lending to the small and medium scale agrobusiness sector should not be left to atrophy.

The rural industrialization project being designed by USAID Thailand may be able to build on the experience and momentum generated by the PRE/SCB Loan. An opportunity exists for USAID Thailand to capitalize on this recent experience.

4. Focus on Target Group

The SCB focused on the largest scale segment of the target group which met the criteria of the loan agreement. It is this size of enterprise with which SCB finds itself most comfortable. We believe (but the documents do not specify) PRE intended to utilize this project to

shift SCB's focus to a new class of borrower; one considerably smaller in scale. This did not happen. We believe the definition used to specify maximum size of enterprises eligible under the loan may have been too large.

5. Foreign Exchange Risk

The requirement for the subborrower to assume the foreign exchange risk of loan repayment to the US Government is a bad idea. The Government of Thailand might be asked to guarantee the risk. Alternately, some system of insurance could be utilized, whereby subborrowers are allowed to pay a small annual premium in return for coverage. This is the practice with respect to the AID/PRE loan in Kenya.

6. Exclusivity

The AID/PRE loan established an exclusive arrangement with SCB to implement the program. SCB is one of Thailand's largest commercial banks; yet it only has an 8% market share. We question the propriety for AID to develop exclusive arrangements with one commercial bank and caution against such arrangements in the future.

7. For the convenience of the reader, the specific recommendations contained in the body of the report (pages 26-27) are repeated below:

- a. The Bureau for Private Enterprise (PRE) must translate the vague language of the Agreement into a concrete and coherent Agribusiness Advisory Service (ABAS) proposal to which the Siam Commercial Bank can respond. There is no evidence that SCB understands the concept in the collective mind of PRE. It would seem that neither Washington-based IFC nor PRE have the local presence to ensure that the concept is understood and implemented. If permissible, the term of the Grant should match the term of the Loan.
- b. PRE must indicate whether it intends to follow the current Project with a similar or larger Project or advise if, having conducted this experimental Project, it is pulling out and leaving on-going activity of a similar nature to SCB or USAID Bangkok or both. Feedback from the SCB Seminar, Financing Agro-Business, September 1984, indicates there is growing Branch interest in the loan concept, to which the Agribusiness Advisory Service concept is related.
- c. Whether or not PRE stays in this activity in Thailand long-term, it needs the help of an Agribusiness IQC to develop and implement a BAS plan for its worldwide

agribusiness loans with grant components. PRE's Investment Office has neither the time nor agribusiness experience to undertake this activity.

- d. It is very important that USAID Thailand's "Strategy for Rural Industrialization in Thailand" be reviewed in terms of the role IFI's in general, and SCB in particular might play in implementation. Its focus on Agro-Processing and its recognition of the need (Small Enterprise Assistance Program) for consultation services and entrepreneur training might provide the basis for the long term USAID commitments that will be needed, particularly if PRE sees its involvement as ending with this Project.
- e. Finally and in concert with the above activities, SCB should review its experience with small and medium size term loans for the agribusiness industry. Is it a promising business development activity? Is it possible to reach further down into the rural agricultural class and begin to develop a new target group and entrepreneurial class. The current list of Subborrowers does not represent a new target group. The current portfolio does not require an agribusiness advisory service much beyond what is now provided. Additional discussions should be held between SCB and USAID/PRE and Mission to determine if the loan and related business advisory service concepts can be developed to a greater extent than is now the case.

I. EVALUATION OBJECTIVES AND APPROACH

A. Description of Project

The project is described in the "Scope of Work" for the mid-term evaluation as follows:

"The loan to the Siam Commercial Bank (493-T-032), a private institution, in the amount of \$2,000,000 was to create a facility to be managed by the Bank, to provide on-lending, financing, and servicing to private Thai-owned or controlled small and medium sized agribusiness projects located in districts outside of Bangkok. A.I.D. also provided a \$150,000 grant to provide training to Bank personnel, in agribusiness term lending. The agreement was signed on September 21, 1982, with the Bank providing matching funds of \$2,000,000 for a total commitment of \$4,150,000. The estimated project completion date is September 30, 1992.

Total Disbursed to Date: \$2,000,000

Although this evaluation is viewed as a mid-term review, this project is fully disbursed, with 15 sub-loans."

B. Conduct of Evaluation

This mid term evaluation was performed during the period October 16-30, 1984, 25 months after the Project Agreement was signed. At the time of the evaluation team's work, 15 Subloans with a total value of \$4.0 million (the full amount of the PRE loan plus bank matching funds) had been approved and disbursed by Siam Commercial Bank (SCB). Of the \$150,000 in AID Grant Funds approved for institutional development and training approximately \$50,000 had been utilized for their intended purpose.

The mid-term evaluation is intended to serve two purposes:

- a) it should provide guidance to PRE to allow for corrections and adjustments in the project's management to improve project implementation, and
- b) it should offer guidance to PRE and to other bureaus and missions in AID with respect to the overall project framework and approach in terms of its replicability in other countries.

The evaluation team followed the guidance provided in the "Scope of Work" dated September 28, 1984 (see attachment I). It examined the SCB loan files for each of the 15 approved projects and performed 8 site visits to a geographically dispersed sample of those approved projects that were well along or already operational. It examined the SCB organizational

structure and loan approval procedures to learn the extent to which institutional changes had been made to accomodate medium term lending practices and the proposed Business Advisory Services (BAS) concept. It examined the impact of the project against development goals and made an attempt to gain an impression of the direct development impact of the project as a whole, and the Subloans in particular, notwithstanding the fact that fungibility of credit facilities causes such analysis to be of questionable reliability.^{1/}

In the interest of achieving rapid evaluation feedback, the team reviewed its findings with senior officials of SCB. It also presented its findings to USAID/Thailand so that this information might help the AID Mission in structuring its newly proposed Rural Industrialization Project.

^{1/} See J.D. Von Pischke and Dale W. Adams, "Fungibility and the Design and Evaluation of Agricultural Credit Projects". American Journal of Agricultural Economics, Vol. 62 No. 4 November 1980.

II. PROJECT OBJECTIVES

The investment opportunity proposal (IOP) was prepared in early 1982. It does not contain a "Log-Frame" which would include data on which to evaluate project performance in meeting the desired objectives. The loan funds provided by AID would be matched by Siam Commercial Bank for "... on-lending to agribusiness and related small and medium-scale private sector projects in rural areas of Thailand ... for terms of 5-8 years, for the financing of expansion, long term capital investment, equipment, technology etc; but specifically not for short term working capital or for revolving loans because such financing is already available from other sources".

The investment proposal (IP) was prepared in June 1982. The IP does not contain a "log-frame". The purpose of the loan is "... to offer medium-term on-lending, financing and servicing to private Thai-owned or controlled small and medium-sized agribusiness projects". The IP contains a long list of development goals of the Thai Government and the USAID, that have relevance to this project. It then asserts that, "The design of this project is consistent with these goals, facilitating and accelerating both local and foreign private investment in labor intensive and agribusiness industries". There is no indication however, of the anticipated impact which the commitment of resources under this project is to have on these development goals.

The "Activity Data Sheet" submitted by AID to the US Congress, describes the purpose of the project as follows:

"To accelerate economic development in the agricultural sector of Thailand by providing financing and Business Advisory Services to small and medium-size agribusinesses to generate employment and to increase the production, processing and distribution of foods and related products".

The Project Agreement dated September 21, 1982, was signed by the Executive Director of the Siam Commercial Bank and the Deputy Assistant Administrator, AID/PRE. The Agreement defines the project purpose "... to provide credit to the subborrowers for a longer-term and at more favorable rates than are currently available. In addition, borrower will provide certain business advisory services to subborrowers which will be supported and supplemented by certain A.I.D. Grant Financed Activities".

Annex A to the Project Agreement dated September 21, 1982 describes the project objectives as follows:

I. OBJECTIVES

The purpose of the Project is to assist in the expansion and growth of Thailand's small and medium-sized agribusinesses. The project recognizes the Royal Thai Government's desire to develop the agricultural sector and the important role of agribusiness in

the economic development of Thailand in general, and in generating employment, increased productivity, and foreign exchange earnings, in particular. Toward this end, the Borrower will provide medium-term financing and business advisory services to qualified small and medium-sized agribusinesses ("Subborrowers"). The total amount of Subloan funds to be made available under the Project will be U.S. \$4 million equivalent, consisting of \$2 million dollars provided by AID and of the equivalent \$2 million in Thai Baht from the Borrower's own resources".

As can be seen from the foregoing extracts, there is no clear statement defining the project's intended objectives in terms that lend themselves to quantitative, or even reasonably reliable subjective measurement. This design flaw has created large difficulties for our evaluation effort. If the team were to evaluate the project's achievements purely on the basis of the purpose described above, we would quickly conclude that Siam Commercial Bank used PRE funds to "provide credit to the subborrowers for a longer term and at more favorable rates than are currently available". All 15 subloans meet that criteria. But we believe more was intended by the PRE project.

There appear to be several assumptions underlying the project; (a) unsatisfied demand for term credit exists among small and medium scale agribusiness enterprises in rural Thailand; (b) commercial banks, through their rural branch networks do not now meet this demand but can and should do so, thereby eliminating a critical constraint to the expansion of economic activity by this segment of the Rural Enterprise Sector; and (c) AID can work with the Siam Commercial Bank to demonstrate how a term lending program linked to a business advisory service should operate, in the hope that additional resources of the commercial banking system will subsequently be similarly applied.

The evaluation team has imputed a "demonstration effect" to the purposes of the project even though no mention is made of it in the documentation, because the magnitude of the project's resources are miniscule in relation to any reasonable estimates of rural agribusiness term credit demand, or current lending levels. Absent a demonstration effect, the team would have had to evaluate the impact of a portfolio of 15 loans made to rural enterprises, on the total credit needs of the target group. Prima facie such an impact would be near zero even if there were no substitution effect and all loans were fully additional.

It would have been helpful to the work of the evaluation team if the following questions had been considered at the time the project was approved for funding by PRE.

1. Is there evidence that there are a significant number of entrepreneurs in the target group who seek term credit facilities and whose expansion needs are curtailed by the absence or shortage of term credit at commercial bank rates and terms?

2. Is lending to these entrepreneurs subject to other constraints, besides the availability of term credit that can be overcome or mitigated by a business advisory service or other services performed by Commercial Banks?
3. Are commercial banks an effective implementing agent to supply the needed term credit and to assist in overcoming these constraints?

The project documentation does not discuss these very complicated issues nor does it indicate whether they were examined by PRE prior to execution of the Loan Agreement. On the other hand, PRE views this project as one of several loans to intermediate financial institutions (IFI's) in LDC's to test the hypothesis that resources injected into the commercial credit system for term lending to the target group will contribute more efficiently to the achievement of the country's development goals via stimulating private sector activity, than would an equivalent allocation of resources in some other way. This project will also be evaluated in terms of its utility to test that hypothesis.

USAID Bangkok is now in the process of developing a strategy for rural industrial development in Thailand. Their work addresses some aspects of the three issues identified above. The evaluation team has examined the material and has drawn upon it to the extent it has confidence in the methodology used to arrive at their findings. We have also sought to gain an impression of current conditions affecting term credit for agribusiness, from discussions with SCB branch managers, zonal managers, senior SCB officers, officials of Bank of Thailand, officers of other commercial banks and from interviews with the subborrowers.

III. ECONOMIC OVERVIEW

A) General Review

The IP contains a description of economic conditions prevailing in mid 1982, the time the project was considered for approval. This description is quoted below in its entirety:

"In 1981, Thailand, like many other countries of the world, suffered from the disruptive effects of inflation, slow economic growth, unemployment, high interest rates and a resulting liquidity shortage. Thailand, however, fared better than most LDC's, as tight money problems were alleviated by significant financial measures adopted by the Thai authorities. These steps included a 1% across-the-board increase in domestic interest rates, a temporary suspension of the withholding tax on foreign borrowings, and an official swap arrangement which guaranteed commercial banks against risks from the unstable value of the Baht currency. Also, the relatively stable price of oil in the world market and the favorable output from the Thai agricultural sector helped ease the fundamental economic problems. Nevertheless, balance of payment deficits and inflation continue to restrict achievement of stability in the Thai economy."

For readers who may, perhaps, not be fully content with this very abbreviated statement, we include relevant excerpts from a reporting telegram prepared by AMEMBASSY BANGKOK on June 19, 1984, (BANGKOK 31002)

- "2. There is no question but that Thailand was among the most successful of the developing countries during the 1960 and 1970. Real economic growth over the period averaged more than 8 percent per year. Combined with a falling birthrate, per capita incomes rose substantially and significant progress was made in dealing with problems of poverty. A communications and transportation network was built which blankets the country. While the economy remained highly dependent on agriculture, significant industrial, service and financial sectors emerged. Exports of commodities and manufactured products played an important role in stimulating domestic demand and employment and in financing imports. The level of external debt remained moderate.
- "3. As it has grown, Thailand's economy has remained relatively open. During the 4 years 1979-83, imports accounted for approximately 25 percent of gross domestic product (GDP) and exports for approximately 20 percent. In this period, the country remained highly dependent on imports of oil to meet the country's growing energy demands.

- "4. Thailand was thus hit hard by the two oil shocks of 1974 and 1979, even though the effects of the former were masked by policy measures which delayed the full impact until the end of the decade. The sharp deterioration in the terms of trade which Thailand experienced in the late 1970s and early 1980 put increasing pressure on the country's current account balances and on the pace of domestic economic activity. The effects were compounded by the emergence of high real interest rates in the international financial marketplace and by the deep recession experienced worldwide among Thailand's trading partners. Domestic inflation rate rose rapidly, topping 20 percent in 1981.
- "5. Growth rates in Thailand in the 1980 have fallen considerably from the more rapid rates of the previous two decades. Between 1980, and 1983, real growth in the Thai economy averaged only about 5 percent per year. The decline in the population growth rate achieved over the previous 20 years may have reached a plateau at about 2 percent, suggesting that it will be increasingly difficult to meet per capita growth rate targets in the future. At the same time, the labor force has continued to grow rapidly, over 3 percent per year, making employment absorption a major emerging issue.
- "6. The deterioration in the terms of trade caused a rapidly widening current account deficit, in 1983 over \$3 billion. The level of external debt rose quickly between 1978 and 1982, and the country faced growing imbalances between the levels of investment and savings and between government expenditures and revenues.
- "7. It became obvious to Thai policy makers and to other observers of the Thai economic scene, that substantial adjustments would have to be made in the Thai economy if the country were to face the challenges of the 80. In 1980 and 1981, the country's planners formulated the 5th National Social and Economic Development Plan (1982-86) which laid heavy emphasis on the need for structural adjustment. In 1982, and again in 1983, Thailand received assistance from the World Bank in the form two structural adjustment loans.
- "9. The agricultural sector remains the leading sector of the Thai GDP. It accounts for over 70 percent of total employment nationwide, 60 percent of the country's export earning, and provides the basis for more than half of Thailand's manufactured output. Yet agriculture's share of GDP has been falling steadily since the mid 1970. In 1978, for example, agriculture accounted for 27.5 percent of GDP. By 1983 the same figure had fallen to 21.8 percent. The outlook is for agriculture's share to continue to shrink. In absolute terms, the real rate of growth of output in the agriculture sector has fallen from the annual increases of 5 and 6 percent experienced during the 1960's and early 1970's to only about 1 percent per year between 1978 and 1983.

- "10. The reasons for the relative decline in agriculture are manifold. Rapid growth in the past was based on an expansion of the amount of land under cultivation and the application of additional inputs of labor. While this may have been consistent with the country's resource endowment in the past, at present most of the land suitable for production has already been put under cultivation and farmers are more and more being forced into marginal land. Outmoded farming techniques have led to soil erosion and depletion, and ecological problems. Access to irrigation facilities, particularly in the poorer areas in the Northeastern section of the country is limited. Government pricing policies tend to hold down farmgate prices and hence the returns to farmers. Rural credit facilities are scarce and interest rates, especially in the informal financial sector, are high. As a result, use of improved seed varieties, fertilizers, insecticides is limited and yields per hectare are among the lowest in Asia.
- "11. Five major areas of agricultural policy reform have emerged. Incentives for production have been enhanced through deregulation of the agricultural market place and the reduction of export taxes. Efforts have been made to improve and expand research and extension services to provide technical assistance to farmers. Land tenure rules and titling procedures have been upgraded. Continuing emphasis has been placed on expanding rural infrastructure and agricultural credit facilities.
- "13. Yet despite the progress made to date, the projections are for continued slow growth in Thai agriculture over the next few years. The NESDB optimistically predicts that output will expand at 2.7 percent per year through the end of this decade, considerably below the 5 percent annual growth target cited in the 5th Development Plan. The primary causes for the lower growth cited by the NESDB are the low rate at which new lands can be brought into cultivation and depressed commodity prices worldwide which have lowered incentives to production. The primary results of these lower growth rates are in the areas of employment generation and rural-urban migration. Employment in the agricultural sector is expected to grow by only about one percent per year, resulting in growing unemployment and underemployment in rural areas. Fewer employment opportunities in rural areas will increase the flow of largely unskilled workers to the city, exacerbating existing urban problems."

It should be noted that the PRE loan agreement was executed in mid 1982, while Thailand was experiencing the depths of a recession. The intervening period saw substantial improvements in macro economic performance. GNP increased by 6% in 1983. Inflation, which ran at 12.7% in 1981, was reduced to 5.2% in 1982, and further dropped to 3.8% in 1983, as measured by the consumer price index. Domestic private investment increased by 21.9% in 1983, from a contraction of 11.1% in 1982.

With economic activity on the increase, and the Baht tied to the increasingly valued U.S. Dollar, severe imbalances in the current account balance of payments have materialized. Thailand had steadfastly adhered to conservative foreign borrowing practices and has retained its excellent international credit ratings; yet pressure on imports has caused some deterioration in its position. Its debt service to export ratio, which stood at 10.7% in 1975, now stands at 20.4%. Its current account deficit as a percent of GDP hit 7.1% in 1983. The trade deficit for 1983 totalled Baht 89 Billion, a large jump from the 1982 deficit of Baht 36.1 Billion.

Thailand's policy responses to this problem appear to be efforts to push its exports (subsidies), tighten credit, establish disincentives for imports (duties), and consequently slow the rate of economic growth.

The Baht, which is tied to the U.S. Dollar, has remained valued at about 23 Baht per \$1 U.S. throughout the period of the loan. The value of the Baht in relation to the D-Mark, however, rose from 10 Baht per D-Mark in January 1982, to 8.4 Baht per D-Mark in December 1983, thereby making it less attractive to export and more attractive to import.

Net public borrowing to meet the Government budget deficit for 1983, totalled 36.1 Billion Baht, of which the commercial banks and other financial institutions covered 17.2 Billion Baht.

B. Term Lending in Thailand

As is the case in many countries, term lending is a relatively new concept for the commercial banking system of Thailand. Until recently investment relied on heavily collateralized overdraft facilities, particularly in the agricultural sector. Informed opinion within Thailand's banking community and the Thai Government economic policy makers holds that term lending is needed to finance the restructuring of the agriculture sector as the country moves from subsistence farming into techno/industrial specialization with forward linkages into agri-business.

At the same time there is a strong philosophical reluctance to intervene in the operation of market forces via government regulation for credit allocation or subsidies. An increasing number of exceptions to this approach have manifested themselves (i.e. interest rate ceilings are set at 17 1/2% for agriculture and 19% for everything else; 60% of deposits in rural branches must be lent locally;) but these are modest measures compared with those instituted by other countries.

The first effort by an AID donor to attempt assistance to facilitate term lending by Thai commercial banks seems to have been made by the International Finance Corp. (An affiliate of the World Bank). In 1978 IFC provided a participatory loan in the amount of \$2 million to the Siam Commercial Bank in which the IFC line financed 70% of the value of each sub-loan while SCB financed the other 30%, with the risk shared by IFC/SCB on a 70/30 basis. This IFC line, administered by SCB, financed 13

sub-projects. It also called upon SCB to establish a business advisory service to assist sub-borrowers in project design and preparation of loan applications.

During the past 5 years, the Thai Government has received offers of assistance from the IBRD and IFAD for APEX loans (\$120 Million) to be used for on-lending to the agricultural sector through commercial banks. (Apparently IBRD is not impressed with the operations of the Government's "Bank for Agriculture and Agricultural Cooperatives".) The Thai Government has declined to accept these loans even though the blended rate would be concessional (about 8%), arguing that it did not need foreign borrowing to achieve this purpose and could create the needed credit through domestic monetary means if it chose to do so.

Other Government financial institutions, such as The Industrial Finance Corporation of Thailand (IFCT) and Bank for Agriculture and Agricultural Cooperatives (BAAC) provide term lending at preferential terms to specified target groups.

The PRE loan made in 1982, seems to be a follow on to the IFC loan. It is therefore one additional "stepping stone" on the path pursued by the Thai Government and donors over the past 10 years to expand term lending in the commercial banking system.

In recent months, USAID/Bangkok has examined the credit and capital problems of rural industrialization in Thailand with a view to arrive at a strategy^{1/} that would utilize the resources of the private sector to meet the country's development objectives. It identifies the rural small and medium scale rural enterprises as the target group.

Pointing out that there are sharp differences of judgment among different analysts as to the extent to which credit in normal circumstances is a constraint on the formation or growth of small and medium enterprises, it examines this problem in Thailand for the target group and concludes,

"...that a) credit, especially for working capital is a serious constraint; b) that the informal credit market imposes much higher interest rates than the formal system, with estimates ranging from a 5-7% premium (over commercial bank rates) on loans extended by friends and relatives, to rates charged by input suppliers averaging around 100% and ranging up to over 200%; c) that these constraints fall most heavily on small enterprises and are more severe in the provinces than in the Bangkok region".

^{1/} Rural Industrialization in Thailand Strategy - USAID/Thailand
September 28, 1984

In summary, "As far as rural industrialization is concerned, the conservative practices of bank branches regarding collateral are a significant constraint on new entry to small-scale manufacturing and on the scale of any new or expansion investment project, unrelated to the inherent needs or potentialities of the project. Conservative practices respecting maturities similarly also constrain less well established enterprises and expose enterprises with limited collateral to severe financial risk during gestation periods or times of general economic contraction. While the financial system does not appear to impart any bias against provincial commercial enterprises (especially as the branches have expanded provincial coverage so rapidly in the past few years), it may harbor a significant bias in the lower land valuations for collateral (mentioned above) and certainly contains no concessions that would act as off-sets to the urban bias of general industrialization policy described earlier".

"Small enterprises appear to be placed at a disadvantage relative to large enterprises because of their more limited collateral (land) ownership, and their consequent heavier reliance on the more expensive credit of the informal market. Considering that the smaller enterprises have been found to be reliable borrowers and apparently earn sufficient profit to afford the higher informal interest rates, and that the banks are said to regard large manufacturing ventures as riskier than small ones, one might plausibly conclude that the "conservative" and traditional lending practices of the formal system are in effect (and paradoxically) discriminating against their best potential clients".

The results of a recently completed USAID financed study of the status of rural industries in Thailand is also of interest. Its findings are described in the USAID Strategy Paper.

"The study indicated that 22% of the firms surveyed planned expansions requiring 276 million Baht in additional financing. Half of this financing was expected to come from commercial banks. The remainder would have to come from other sources. If these figures are extrapolated to all rural businesses with the same characteristics as those in the sample the current demand for credit from existing rural firms beyond that expected to come from commercial banks is on the order of half a billion dollars. This study also found that 57% of the firms surveyed indicated that adequate finance was either the most important or second most important constraint to expansion".

The PRE loan to the Siam Commercial Bank would appear to address economic development goals that are taking on increasing importance to the USAID Mission in Thailand. The experiences of the PRE project may well offer some relevant guidance to the AID Mission in understanding some of the available options to facilitate the availability of credit to its target group.

IV. INSTITUTIONAL REVIEW AND EVALUATION

A. Siam Commercial Bank Lending Operations

This well-established Bank, the Country's oldest, is generally viewed as one of the leaders in its industry.

Information developed in the course of the team's visit, and the impressions gained through personal contact with various levels of management and staff tend to confirm this reputation.

1. Management:

The Bank is headed by Mr. Tarrin Nimmanahaeminda, a graduate of Stanford University, supported by a five man executive team as shown in the Table of Organization, which follows.

The Board of Directors of 11 members is chaired by Mr. Poonperm Krairiksh, Director General of the Crown Property Bureau which owns 44% of the Bank's outstanding shares. Other Directors are:

Pol. Gen. Luang Chart Trakarnkosol,
Commanding General, Police Forces (Retired)

Col. Chinda Na Songkhla,
Director General, Civil Service Commission (Retired)

Jinta Boonya-Akom,
Official, Crown Property Bureau (Retired)

Pong Sarasin,
Industrialist (Coca-Cola Bottling)

Prachuab Bhirombhakdi,
Industrialist (Singha Beer)

Anand Panyarachun,
Industrialist (Textiles and Other)

Mom Luang Thawisan Ladawan,
Personal Secretary to H.M. The King

Prachitr Yossundara,
Chairman of the Executive Committee and former
Chief Executive Officer

Tarrin Nimmanahaeminda,
President and Chief Executive Officer

Vdis Sundarananda
Executive Vice President

2. Financial Performance:

June 30, 1983 and 1984 Balance Sheets and Profit and Loss Statements, are certified by Jaiyos & Co., Chartered Accountants and Auditors. Significant items as of June 30, 1984, are:

	Million Baht	Million U.S. Dollars @ Baht 23/US\$ 1	Change 1984/1983
Assets	51,609	2,244	35.3%
Deposits	38,305	1,665	42.4
Loans	35,495	1,543	39.0
Capital Funds	2,203	96	30.8
Revenues	3,066	133	43.1
Expenses	2,810	122	40.3
Profit Before Taxes	373	16	82.3
Net After Taxes	256	11	81.9

Fourth in size among Thailand's sixteen commercial banks, SCB accounts for approximately 8% of deposits and 7.5% of total loans in the System. Consistent growth is attributed to quality services, far-reaching automation and a country-wide network of 154 branches, including 8 opened in 1984. In addition, branches are operated in New York, Los Angeles and London.

Although standards of bank profitability in Thailand are not readily available, the Bank scored impressive gains in the first half of the current year:

Return on Total Assets (6 Months):	0.49%
Up 36% from 1983	
Return on Equity (6 Months):	10.39
Up 35.1%	
Net Profit/Total Revenues	8.3
Up 27.7%	

3. Loans, Loan Policies, and Regulations:

The June 30, 1984, domestic loan portfolio of Baht 28.5 Billion (US\$1,239 Million) includes Head Office loans of Baht 11.9 Billion (42%) and those of the Branch system of Baht 16.5 Billion (58%), distributed as follows:

Industrial Sector	31.9%
Commerce	26.3
Consumers	11.4
Real Estate and Construction	10.0
Agriculture	8.1
All Other	12.3

Close to 50% of SCB's domestic lending takes the form of overdrafts, with the remainder in bills receivable (20%) and time loans (30%); the latter can run as long as 10 years (in real estate) although the majority does not go beyond the 3 to 5 year range.

Lending tends to be on a secured basis, although bank management is quick to point out that the lending decision is primarily influenced by considerations speaking to a prospective borrower's character, reputation, experience and ability, and to the business rationale of his proposal. Good collateral does not necessarily make a bad idea bankable in the eyes of the people at Siam Commercial.

The lending process is structured so as to involve the entire organization, with considerable interplay between managers and account officers at the branches, and loan specialists and senior officers at Head Office. Responsibility for generating, evaluating and monitoring loans, and for administering the loan approval process, rests with the Credit and Marketing Department (for Head Office Business) and the Branch Credit Department (for the Branch System). Lending power is a function of ability and need, rather than status. Individual authority runs from Baht 100,000/500,000 for Branch Managers and 500,000/2,000,000 for Regional Managers with jurisdiction over from 8 to 15 Branch Offices, to Baht 3, 5 or 10 Million for Senior Executives. Exposure of more than 10 Million to any one borrower requires approval by the President.

Current regulations of Thailand's monetary authorities provide for an absolute limit of a Bank's risk assets at 12.5 times capital funds; within this aggregate ceiling, no more than 25% of capital may be at risk to any one client. Additional restraints on credit are in effect, limiting expansion over 1983 outstandings.

Interestingly, banks are compelled to direct at least 13% of their deposits to the agricultural sector, and to place any shortfall with an official agricultural credit institution at punitive rates of interest. Although in apparent accord with the imperative need for agricultural credit in what is still an agriculture-based economy, Thai bankers contend that limited opportunities and high risk have caused the banking sector to fall short of prescribed targets. At year-end 1983, 18.5% of the total banking system's required credit to agriculture was in fact not lent out; instead, it was placed on deposit with the Bank for Agriculture and Agricultural Cooperatives, at a loss to the depositing institutions. Siam Commercial Bank, this year, has been able to meet its 13% target; AID joint project loans are excluded, as agreed.

The Government's special concern with the agricultural sector is also evidenced by a stipulation that bank branches in rural communities employ 60% of their deposits in loans to borrowers in their area. In addition, the maximum rate of interest allowed for agricultural lending is set at 1.5% below the otherwise permitted maximum loan rate (at present, 17.5% and 19%).

4. Lending Procedures:

Step by step lending procedures applied to transactions under the AID Joint Lending Program have been outlined by SCB as follows:

a. Credit Request

1. Account officer at branch office proposes the AID Joint Lending Program to prospective customer.

2. Prospective customer submits proposals to branch office.

b. Credit Analysis and Recommendation

i) At Branch Office

- Account officer at branch office screens the submitted project with respect to qualifications set by AID, the viability of the project and SCB's credit approval standard.

- Branch office submits credit report to Head Office.

ii) At Head Office

- Account officer at Head Office will consider the project with respect to the purpose of the loan, marketing condition, experience of the management, the collateral and ability of the prospective customer to repay.

- The credit package will be discussed before being recommended for approval or turned down.

c. Credit Presentation

1. The account officer at Head Office prepares credit report together with credit approval form and submits to Credit Authorities with appropriate recommendations and comments. The credit approval form will be comprehensive including limit, pricing, collateral, terms and conditions.

2. Department Manager will further present the package up through Credit Authorities Channel.

3. At any point in the process, any alteration on pricing or structure may be overruled by authorities.

d. Credit Implementations

1. Account officer at Head Office informs branch manager of the final decision made by the management for each credit package.
2. Account officer at Head Office will report the disbursement to AID while account officer at branch office will notify prospective customer and prepare all required legal documents.
3. When all required documents are completed and the inward remittance has been received, the amount will be converted to local currency and credited to the customer's account at branch office together with the portion extended by SCB.

e. Credit Follow-Up

After approval, the account officer at branch office and head office will review the project and visit the customer from time to time.

As indicated earlier, collateral is a key though not a determining factor. Broad involvement of numerous levels of the organization must be viewed as a strong point in this bank's credit practices. Participation of senior management similarly gives credence to the image of sound lending. The organization seems surprisingly free of the rigidity and excessive formalism often found in similar situations; structurally, the two lending departments appear to stress flexibility and cooperation between each other and within their component units, as follows:

<u>Branch Credit Department</u>	<u>Credit & Marketing Department</u>
- Metropolitan Division	- Industrial Division
- Upcountry Division	- Commercial Division
- Agricultural Division	- Analysis Division
- Credit Control & Follow-Up	- Credit Control & Follow-Up

A Commodity Group, jurisdictionally part of Branch Credit, and the Small and Medium Size Industrial Enterprise Unit which reports to Credit and Marketing, in effect cut across departmental lines and service the needs of both.

The Control & Follow-Up Units administer the problem loan component of each portfolio, bringing disinterested objectivity to the work-out process.

5. Small and Medium Size Industrial Enterprise Unit (SMIE)

This four-person team has the dual function of administrative and reporting support to lending branches and divisions participating in the AID joint lending program (and an earlier scheme of cooperation with IFC) while simultaneously functioning as a lending division in its own right, with a portfolio of Baht 147.5 Million. In fact, one of the AID Program Loans (No. 14, a mung bean noodle processing operation) originated in and belongs to this unit.* Organizationally, SMIE also is responsible for business advisory services, discussed in greater detail elsewhere in this report.

6. AID/SCB Joint Lending Project

The full amount of US\$2,000,000 made available to SCB for on-lending had been disbursed by September 17, 1984. Details of the portfolio are shown in Annex ____.

The Evaluation Team performed an examination of files, on-site visits with Sub-borrowers, and interviews with lending officers, branch and division personnel, and Senior Management at Siam Commercial Bank. We conclude that:

- a) Purposes and objectives of the project as set forth in detail in Annex A to the Project Agreement of September 21, 1982, are being met in a satisfactory manner. Attention must be called to the discussion, in section II of this report, of the broader issue of the objectives of this project and their relevance to term credit in Thailand's agricultural sector, and the terms and rates at which same might currently be available.
- b) Project implementation was managed in accordance with the provisions of the Agreement.
- c) Conditions as to areas of operation, regional dispersion, eligibility of borrowers, use of project funds, structure of financial package, size of sub-loans and the terms thereof, as well as periodic reporting requirements, are being met, except for:

* Loans 1, 4 and 10 are administered here, as a service to the originating branches/divisions.

- The requirement that subloans be for a minimum term of 5 and a maximum of 8 years. The transactions detailed below fail to meet the stipulated minimum, while the maximum (Loan 1983/05) runs to only 6 3/4 years.

Loan	02	disbursed	Jun. 1, '83	w/final maturity	Mar. 1988
"	07	"	Oct. 4, '83	"	Jun. 1987
"	08	"	Feb. 2, '84	"	Sept. 1988
"	09	"	Feb. 29, '84	"	Sept. 1988
"	10	"	Mar. 19, '84	"	Sept. 1988
"	12	"	Mar. 20, '84	"	Dec. 1988
"	13	"	Jun. 5, '84	"	Oct. 1988

- One sub-borrower (Loan 1984/10, Charnchai Chavachart, \$100,000) is in default with regard to interest due on June 30 and September 30 of the current year. This is a tobacco curing operation facing a reportedly difficult market. The Bank has indicated its willingness to carry this client into the next season and is said to be watching the matter carefully, though without alarm. Non-payment is properly reflected in the June 30, 1984 Quarterly Report.
- No rating of sub-borrowers for credit-worthiness and compliance with debt service obligations has been developed or reported until now. Not illogically, the Bank interprets this item as an "experience" rating and feels that not enough time has elapsed for meaningful determinations to be made.

7. General Comments:

a. Target Group - While all sub-borrowers meet the criteria of the Agreement as to what constitutes small and medium size enterprises, a few may not fully live up to the intended spirit of that definition. Thaisan Rubber Export Co. Ltd., for instance, though "medium" in size at its start-up two years ago, is in fact "big business" in terms of affiliation with companies of considerable significance.

The Evaluation Team does not view this type of situation as a potential violation of the Project Agreement, but rather as an interesting illustration of some of the subtleties that can and do impact upon the efforts to define a project target in a universally valid manner.

b. Interest Rate - Funds supplied by Siam Commercial as borrower's tranche are lent to sub-borrowers at a variable interest rate defined as 1.5% above SCB's "minimum lending rate" though subject to the overall rate ceilings imposed by regulatory authority. AID supplied funds are relent at the fixed rate of 12% i.e., the 8% paid to AID plus an agreed upon 4% margin. The 1% fee authorized in the Agreement is not now being charged.

It is assumed that this fixed rate/variable rate split is in accord with the Project Agreement, although somewhat ambiguous language could permit a different interpretation.

More important though is the question of just how beneficial this pricing really is to (a) the borrower and (b) the sub-borrowers.

With interest-free demand deposits playing a negligible role, Thai banks basically fund themselves through savings and time deposits at interest rates of from 9 to 14%; supplementary funding through an interbank market, and Bank of Thailand rediscounts are available. While a full study of the local money market is quite beyond the scope of this evaluation team's assigned tasks, it should be reasonable to assume that institutions like SCB operate with a funding cost of from 12 to 14%, including direct interest expense, operating and production costs, and the impact of reserve requirements. With lending rates in the agricultural sector subject to a 17.5% ceiling, the spread available to the lending bank is likely to average around 4.5%. Clearly, the 4% spread (and 1% permissible fee) does not offer significant extra benefits to the borrower.

From the sub-borrower's standpoint, the blended rate of 14.75% (with only one half thereof subject to change) is of course attractive, and the Bank has been able to use this element to good advantage in generating business for this project. Whether this should be deemed sufficient to offset the dollar exchange risk assumed by sub-borrowers is open to question. In pricing terms one must conclude that rather limited net benefits are derived from the below market rate at which AID funds are made available to borrower. Whether developmental impact of future projects might be enhanced by encouraging more aggressive sub-lending through some type of guarantee program, while providing funds at or nearer to full market rates, may well be worthy of consideration.

c. Marketing - Project documentation gives considerable weight to the marketing of sub-loans, and some thought appears to have been given to AID playing a role in this process. While this team does not see a need for such a step, and would question its wisdom even if need were to exist, it is interesting to note the ease with which the available funds were placed among just 15 clients.

Although project data was disseminated to all branches and divisions concerned in what would appear as the start of a mass-marketing effort, SCB in reality conducted a sharply focused program designed to sell this product to pre-selected prospects. This included start-up ventures and existing enterprises; some already were SCB customers while others had previously banked with competing institutions. The Bank's obviously far reaching knowledge of its market appears to have been an important element in the overall process of producing these loans. Branches, regions and divisions all participated, with senior management involvement another fundamental aspect of its success. The two Vice Presidents in charge of the Bank's lending activities (Wirutt Ruttanakorn, Branch Credit, and Kriang Kiatfuengfoo, Credit and Marketing) jointly managed the project, under the ultimate supervision of Senior Vice President Prakit Pradipasen, Assistant General Manager.

This approach seems realistic in view of the relative difficulty in locating viable projects in the particular market with which the program concerns itself, and the ease with which a well placed branch system is likely to gain awareness of any that are being planned.

Rate advantages, limited though they might be, evidently played a role in the successful placing of these funds.

d. Institution Building - Interesting intangible elements of institutional development must be noted: the "glamour" of the AID connection, the enhanced awareness of the importance of this type of lending, the challenge of doing something, no matter how familiar, by at least partially unfamiliar rules, and the knowledge that top management is watching, all appear to play a role in this project and are likely to be of permanent value to Siam Commercial Bank.

SCB clearly is in the midst of a major rejuvenation program affecting people, systems and policies. This type of environment can benefit greatly from the challenges and stimulation inherent in the AID project, lending content and meaning to the changes under way. Thus, Senior Vice President Prakit Pradipasen correctly referred to the Program as a "fruitful" experience, adding that he saw it as having instilled discipline in the operating practices and thought processes of his staff.

e. Portfolio Management - There can be no doubt that the requirements of Section 6.3 of the Project Agreement, calling for due diligence, efficiency, sound practices and qualified management, are being met by the Borrower in a totally professional manner. It should nonetheless be understood that business practices prevailing in the rural environment of Thailand's provinces can place a somewhat casual imprint on certain records or procedures, as for instance those surrounding a borrower's financial statements. At times, these simply do not exist; often, they are incomplete, and almost never can they be expected in what elsewhere might be viewed as a timely manner. This apparent informality should not be

misinterpreted as reflecting unfavorably on SCB's management of the sub-loan portfolio. Whether formally documented or not, the Bank is confident that it does in fact have full and timely understanding of its borrowers' affairs; this observer is well satisfied that this is indeed the case. Mention should be made that credit files in general contain a wealth of information and that certain elements, like the "Customer's General Information" summaries and the credit applications, are of high quality.

f. Foreign Exchange Risk - The dangers of having the sub-borrower carry the exchange risk attached to these transactions deserve attention. Although fully in compliance with the governing agreement, this provision should have the benefit of further thought and study, in the best interest of all concerned. The relative stability of Thailand's currency over a good number of years makes the notion of exchange risks less alarming than might be the case elsewhere, periodic devaluation rumors notwithstanding. Thus, it is not surprising that the certainty of savings in interest expense now against the possibility of exchange losses later, may appear to many as a risk worth taking. The additional argument is often made that today's smaller enterprises may well be a lot stronger in future years and hence better able to cope with the costs of devaluation than occurring, whereas even minor interest advantages are vital in the comparatively lean present.

Valid though this reasoning might be, we cannot dismiss the potentially unfavorable consequences of this arrangement. Economically, devaluation of major dimensions at an early date could cause very serious damage. In addition, whatever good will AID may seek is likely to disappear if sub-borrowers come to identify the program not with growth and profits but with the fears of impending loss and disaster. Serious consideration should be given to avoiding these problems through the development of an exchange guarantee scheme with the participation of the Bank of Thailand.

B. Business Advisory Services (BAS)

Siam Commercial Bank (SCB) involvement with the Business Advisory Services (BAS) concept commenced well before the development of the SCB - AID/PRE Loan Agreement in 1982. Under a joint International Finance Corporation (IFC)/SCB program in 1978 SCB set up a Small and Medium Scale Industrial Enterprise (SMSIE) Department to handle joint loans to industrial projects.

When the AID/PRE Private Sector Reconnaissance Team visited Thailand in February 1982 to evaluate the general potential for increased private investment in three sectors, one of which was agribusiness, it noted the "lack of basic management skills in small/medium businesses, and especially needed if agricultural projects are expanded".^{1/}

^{1/} Summary of Private Sector Reconnaissance Team Report on Thailand

The Investment Opportunity Proposal (IOP) of April 27, 1982, noted this need and indicated (p.1) that "under the AID/SCB proposal, agricultural development will be addressed - complementing the IFC endeavor - and the new program will be administered by the Department already in place. The name will then be changed to Small and Medium Scale Enterprise Department (SMSE) to reflect the combined effort". Under a "Services To Be Provided By SCB" Section (p.8), the IOP talks of "advisory services as necessary at the discretion of SCB to assure continued high quality of loan portfolio. Services as well as credit approvals to be handled through SCB's SMSE Department in Bangkok". Language which describes the current role for BAS appears under the Marketing Plan (p.11, paragraph h) - "When the local Branch is unable to solve or improve a delinquency, the SCB Head Office in Bangkok is to be notified and necessary advisory services and help are to be given to these borrowers".

The Investment Proposal (IP) of late June 1982, refers (p.3) to a June 1, 1982 meeting when "SCB also indicated a desire to establish an agribusiness advisory service (ABAS) to assist smaller borrowers and prospective borrowers who required assistance in loan application, feasibility, technical, accounting and management problem solving or training, access to U.S. technology or marketing skills, etc., as a supplement to their normal legal, accounting, and professional advice. PRE indicated to SCB that it anticipated the Bank would charge a modest fee for the ABAS, but that PRE would be willing to consider a \$150,000 grant to initiate ABAS activities. This aspect of the project remains under consideration", the IP stated. Under Technological Goals (p.10) the IP suggested that "Technical services to be provided by SCB, and the new ABAS facility which is to be established, can engender better business practice and promote the sound use of credit by smaller entrepreneurs previously outside the mainstream of commercial banking". The section on

Administration (same page) summed up this thinking by stating that "while SCB's current Branch Credit and Agricultural Credit Departments as well as its SMSE program can handle this loan project, the additional technical and advisory services from ABAS can be of particular value in extending credit to new, less sophisticated borrowers in outlying districts". With one or two exceptions Subborrowers in the SCB/PRE portfolio are not the type for which additional services were contemplated in the "Technological Goals" and "Administration" sections of the IP.

When the Project Agreement was signed on September 21, 1982, the Project Description (Annex A, Section VI, Agribusiness Advisory Services) indicated "the Borrower (SCB) will, when it deems necessary, provide business advisory services to Subborrowers". The assistance would take four forms:

1. Help in identifying attractive new business opportunities and entrepreneurs.
2. Help in the preparation of Subloan applications.
3. Help in responding to specific problems that may arise from time to time.

4. Help in obtaining the services of specialized professionals where such skills may be required.

As was the case with the Kenya Commercial Bank (KCB) Agreement, the eight categories of business management services to be provided went well beyond what could be expected from professional bankers. The agreement indicated that "the Borrower may charge Subborrowers an appropriate fee for these services". It was also specified that "the Borrower will assemble and make available to Subborrowers information ... pertinent to small and medium-sized agribusiness development and financing in Thailand". Lastly, the Agreement specified that "the Borrower and AID shall cooperate to provide training for the Borrower's personnel and to provide local and foreign technical assistance for Subborrowers under this Project".

As proposed in the IP, the Bureau for Private Enterprise provided a grant of \$150,000 to support the Project. As described in Section VIII of Annex A, Grant Financed Activities, "the purpose of AID grant funding is to strengthen the Borrower's ability to provide assistance to agribusiness firms and to train the Borrower's middle management level in agribusiness project analysis and technology transfer". Two qualified agribusiness loan officers were to work solely on the development and implementation of the project. Funds were to be used for the following:

1. Advisor(s) to review the Borrower's agribusiness portfolio and its procedures for analyzing credit risk on agribusiness projects.
2. Seminars for the staff of the Borrower on financial analysis of agribusiness investment proposals.
3. Training courses in the United States on U.S. technology management and marketing know-how in agribusiness.
4. Experts to consult with and provide advice to the Borrower's customers.

It was estimated that Activities 1 and 2 would share \$60,000, Activity 3 would require \$60,000, while Activity 4 would use \$30,000.

It was agreed that funds for commitment for Grant-financed activities would be made available for two years following the date of signing of the Agreement - September 21, 1982.

As in the case in the KCB Loan/Grant Agreement, Grant activities have proceeded very slowly. Up to the time of the evaluation less than \$50,000 has been expended and on September 19th availability of the Grant funds was extended until June 21, 1985. Five activities have been funded so far:

1. Two SCB Officers to United States for training in early 1983. Estimated cost \$10,000.
2. Seminar - Pig Production and Management, Improvement of Production and Marketing in Thailand, September 8-11, 1984, for SCB customers. Actual cost - \$21,365.
3. Seminar - Financing Agri-Business, September 21-23, 1984, for SCB staff. Actual cost - \$9,876.
4. Two SCB staff to Amsterdam, Rotterdam and Hamburg to study various aspects of tapioca exporting and trading, October 1984. Estimated cost - \$7,000.

A further two week trip to the United States for two SCB staff to study the Chicken and Pig Agribusiness industries is in the planning stage and will undoubtedly occur before the June 21, 1985 cutoff date. More good ideas for Grant activities are required. SCB is also concerned about the amount of time and manpower resources it takes to develop and implement Grant activities, particularly the training seminars. Delays occur at the Washington end, and there is need for the Bureau for Private Enterprise to state more specifically how it wants its rather broad Grant objectives to be achieved.

Based on interviews and discussions with the individuals involved, the following is the current status of the Business Advisory Services in SCB:

1. Top management at SCB indicates that its view of BAS has not changed since the original discussions with IFC and later with PRE. It does not believe it is equipped to provide services to its customers beyond those which banks traditionally provide. If a particular borrower needs non-financial help, the Bank will obtain experts. The Bank will provide assistance when problems emerge.
2. The above view leads to concern on the part of top management about the time frame for Grant-financed activities - originally two years from date of Project Agreement, now extended to June 21, 1985. If a major function of BAS is to deal with problems as they arise, i.e. loan delinquencies, should not Grant resources be available for the term of the loans to Subborrowers, since "problems" can occur at any point in this time frame?
3. BAS activities are located in two Bank Departments. The Small and Medium Scale Industrial Enterprise Department (SMSIE) reports to the Vice President, Credit and

Marketing Department. Credit and Marketing is a central Bangkok Department with corporate, as well as retail, accounts. Normally there are three SMSIE staffers. This group oversees four of the fifteen subloans - numbers 1, 4, 10 and 14, since these have head offices in Bangkok. The staffers are not industrial consultants. The agribusiness advisory service (ABAS) is centered in an Agricultural Credit Division, reporting to the Vice President, Branch Credit Department. However, Grant-financed activities to date are largely managed by the central Credit and Marketing Department. The Bank provides two qualified agribusiness loan officers to work on the development and implementation of the project and indeed substantial additional manpower resources were provided. In addition, the Commodity Credit Group, staff to Vice President, Branch Credit Department, assist in the management of the SCB/PRE portfolio.

4. The central issue that has been put to the top management of the Siam Commercial Bank by the Evaluation Team is whether SMSIE and ABAS resources are to be used solely in the development of a small and medium size, medium term agribusiness portfolio or whether they are also to be used to support the portfolio over time - overcoming problems before they grow into account delinquencies, seizing opportunities which could result in expanded enterprises, transferring agricultural technology, etc. The latter is the essence of the institution building which AID technical assistance seeks, at least in the original documentation if not in actual implementation. The Bank answer is that its use of the business advisory service is less comprehensive - application processing and analysis, feasibility studies, and the correction of poor performance when it comes to light. However, the Bank does not have a closed mind on this issue.

5. In examining the Bank's reservations concerning the IFC/USAID concept of business advisory services, four considerations should be noted:

Need - Some Subborrowers visited didn't realize they need help; others did. One glance at the chaos on the shop floor of Project 13 and the need for help is obvious. Grant-funds are available for this purpose. However, the Bank is unlikely to intervene in a situation of this kind unless the account is delinquent.

Secrecy - There is some concern on the part of the Subborrowers about secrecy. Visitors, unless they have impeccable credentials, are suspect. Commercial advantages in most projects are minimal and there is concern that unscrupulous consultants might share these advantages with others.

Bank Liability - The proposition was advanced by the Evaluation Team that the Bank might be held liable if non-banking advice for which it was responsible did not produce positive results. Bank officials did not believe liability is a problem in Thailand, though they did feel goodwill could be lost if advice did not prove beneficial.

Long Term Commitment - A pro-active Agribusiness Advisory Service would be expensive. This is particularly true if SMSIE or some other Bank organization hires qualified agribusiness or engineering consultants for its staff. Yet it admits that civil engineers are hired to provide similar supervision for construction projects without question. Resolution of the issue is to some extent in the hands of USAID/PRE and the Mission. Are they committed to this concept over the long term? Small and medium size term lending in agribusiness is risky and at times unprofitable. The Bank is not ready to proceed with further institutionalization of the agribusiness advisory services concept unless USAID is committed to the concept long term. A two-year grant period and threats of deobligation do not spark confidence in this respect.

In the context of the current situation and the perceived institution-building objectives of the Project, the following recommendations are made:

- a. The Bureau for Private Enterprise (PRE) must translate the vague language of the Agreement into a concrete and coherent Agribusiness Advisory Service (ABAS) proposal to which the Siam Commercial Bank can respond. There is no evidence that SCB understands the concept in the collective mind of PRE. It would seem that neither Washington-based IFC nor PRE have the local presence to ensure that the concept is understood and implemented. If permissible, the term of the Grant should match the term of the Loan.

- b. PRE must indicate whether it intends to follow the current Project with a similar or larger Project or advise if, having conducted this experimental Project, it is pulling out and leaving on-going activity of a similar nature to SCB or USAID Bangkok or both. Feedback from the SCB Seminar, Financing Agro-Business, September 1984, indicates there is growing Branch interest in the loan concept, to which the Agribusiness Advisory Service concept is related.
- c. Whether or not PRE stays in this activity in Thailand long-term, it needs the help of an Agribusiness IQC to develop and implement a BAS plan for its worldwide agribusiness loans with grant components. PRE's Investment Office has neither the time nor agribusiness experience to undertake this activity.
- d. It is very important that USAID Thailand's "Strategy for Rural Industrialization in Thailand" be reviewed in terms of the role IFI's in general, and SCB in particular might play in implementation. Its focus on Agro-Processing and its recognition of the need (Small Enterprise Assistance Program) for consultation services and entrepreneur training might provide the basis for the long term USAID commitments that will be needed, particularly if PRE sees its involvement as ending with this Project.
- e. Finally and in concert with the above activities, SCB should review its experience with small and medium size term loans for the agribusiness industry. Is it a promising business development activity? Is it possible to reach further down into the rural agricultural class and begin to develop a new target group and entrepreneurial class. The current list of Subborrowers does not represent a new target group. The current portfolio does not require an agribusiness advisory service much beyond what is now provided. Additional discussions should be held between SCB and USAID/PRE and Mission to determine if the loan and related business advisory service concepts can be developed to a greater extent than is now the case.

V. ANALYSIS OF SUBLOAN ACTIVITIES

This analysis of the subloan activities, which includes a description of the portfolio and an assessment of the development impact of the sub-loans, is based on an examination of all the loan portfolios, visits to eight of the fifteen firms assisted, and extensive discussions with these borrowing entrepreneurs and with both regional and central SCB staff. The data gathered through these activities are summarized in Tables 1 and 2.

A. Description of the Portfolio

1. Types of Enterprise Activities: The explicit purpose of the project was to assist agribusiness operations; there was no prescription against integrated agribusiness operations which also engage in agricultural production. All of the participating firms are, in fact, agribusiness operations. Five (33%) are involved in the production of food, including the breeding and fattening of swine, poultry, and fish. Another 33% are food processing firms which produce white and parboiled rice, mung-bean noodles, sausages, and preserved fruits. Three firms (20%) produce agricultural inputs (animal feed, small tractors, rice threshers, and tapioca chippers), and the two remaining firms are involved in tobacco-curing and the processing of rubber.

2. Existing Enterprises Versus New Enterprises: The sub-borrowers include ten existing firms (67%) and five start-up ventures (33%). Among the existing firms, six have expanded their current operations with the loans, while the remaining four firms have undertaken product-line diversification. All of the entrepreneurs engaged in start-up ventures are experienced in their particular industries and manage other commercial establishments. Thus, none of these individuals may be classified as first-time entrepreneurs. However, as a result of the loans, two of the managers of new firms are now for the first time involved in agricultural production and processing activities; their previous entrepreneurial experience was in retail establishments.

The absence of first-time entrepreneurs reflects the conservatism of SCB in their selection of loan recipients. Bank officials were concerned about assuring the project's "success" and thus identified extremely experienced and well-established borrowers. This type of conservatism in the selection of loan recipients is also prevalent throughout the Thai commercial banking community.^{1/}

^{1/} See AID Rural Industrialization Strategy Paper and background documents.

3. Size of Enterprises Assisted: Over half (53%) of the firms aided under the project were small enterprises when they received the loans or were newly established as small enterprises. The remainder were medium-sized companies. This more than fulfills the PRE requirement that 25% of the assisted companies be small-scale. The average asset-size of the existing firms was \$419,874, somewhat below the \$500,000 limit for the small-scale classification. The newly established ventures are significantly larger; three of the five new enterprises are medium scale, and the average asset-size for all 5 is \$506,533.

After the loan disbursements, the size distribution of the existing enterprises changed somewhat. Sixty percent of the existing enterprises moved into the medium-scale category and one became large-scale (over \$1.0 Million, as defined by PRE). After receiving the loans, the average asset-size for all of the ventures, including the five newly established firms, was \$660,714. The range was from \$1.389 million (a rice mill) to \$143,728 (the tobacco-curing firm). (Table 1).

As this data indicates, SCB fulfilled very precisely PRE's stated objectives in terms of the size classification of the target group of enterprises. The bank was even able to surpass the 25% goal and comply with PRE's suggestion that, if possible, up to 50% of the participating ventures be small scale. Nevertheless the enterprises aided by the project are, according to PRE, "not exactly what we had in mind". Although apparently PRE never precisely specified further what they did have in mind, their intention was to aid a much smaller scale of enterprise or at least to have these constitute a significant proportion of the portfolio. If this was indeed their intention, PRE officials should have defined the size classification of enterprises in more precise terms; for example, they might have suggested that certain percentage of firms be in the lower range of the "small firm" category (e.g. that 25% of the firms be in the "under \$250,000" classification).^{1/}

4. Size of Loans: PRE stipulated that \$400,000 be the maximum total loan size, but that loans of over \$200,000 be "rare". The actual lending pattern shows that ten loans (67%) were over \$200,000. Thus the size of the loans were larger than PRE had intended in its project design. However, since most of the first loans extended were well-over the \$200,000 target cut-off, PRE could easily, at an early stage in the project, have underscored its interest in smaller loans, if indeed this was an important issue.

The average loan size for the entire portfolio was \$266,565.

^{1/} It is useful to note that while the Kenyan Bank had size classification objectives similar to SCB's, the average size of enterprise assisted in that project was \$78,000.

5. Loan Recipients: PRE specified that all loan recipients be engaged in enterprises located outside of Bangkok. All of the loans fulfilled this requirement. Regionally, they were distributed as follows: 33% in the Northeast, 27% in the East, 20% in the Central Region; 7% in the North, and 13% in the Southern part of the country. SCB officials said that they made a particular effort to target the loan funds to special problem areas, particularly the Northeast.

Women are the principal managers of three (20%) of the firms in the portfolio and they participate in the management of at least three others. Among the firms visited, women contribute a major portion of the workforce in three enterprises, including the farm machinery factory (39% of the workforce) and the rubber factory (40%). In these firms, women workers were preferred for the more skilled jobs and also participate in the heavier unskilled tasks. Although their pay was some times less than for the males, women were also given equal access to such jobs as construction, where in one rice mill visited, they constituted a significant portion of the labor crew. The marketing manager of the farm machinery plant (a woman who gives equal pay for identical jobs) reported that she prefers women because "they are more dependable and work harder than men".

As noted in section V.A.1. above, all of the entrepreneurs to whom loans were extended were well-established business people, most of whom were highly experienced in their industries. Most already had considerable financial resources, either their own, or through other bank loans, bank credit lines, or other sources. In fact, for the sub-projects to which the loans contributed, the entrepreneurs themselves, through these other means, provided an average of 54% of the necessary capital; the loans contributed the remaining 46%. Only three of the sub-projects needed 100% funding (Table 1).

The fact that SCB explicitly selected these relatively well established, experienced business people for project participation is in part due to certain conditions imposed by PRE in the loan agreement. Specifically, the risk-bearing of the foreign exchange element by the borrower led SCB officials to search for wealthier, more sophisticated candidates who could fully understand the implications of this element, who would be willing to bear this risk, and who could absorb the losses which a devaluation, which appears quite possible within the next year or two, would incur. Thus, if PRE wishes to reach a different target group of entrepreneurs in future lending programs, it should consider other mechanisms for handling the foreign-exchange element, rather than having the full risk borne by the sub-borrowers.

PRE's intention was also that loans be extended to individuals who could not have obtained alternative funds through the commercial banking system. However, the site interviews revealed that most borrowers feel that they could have obtained alternative funds from other banks and, further, most now have or have had other loans or lines of credit from SCB or

other banks. However, three aspects of this project did encourage the participants to proceed with these new activities now rather than at some possible future date. These include: (1) the aggressive marketing of the funds by SCB central and regional officials, who identified not only the recipients but also helped them to identify viable, profitable new projects; (2) the continuing assistance which SCB provided to the borrowers; although this took the form of informal monitoring, rather than explicit business advisory services, it was considered helpful by the clients who were interviewed; and (3) the lower interest rate than other loans offered; this clearly encouraged some recipients to undertake activities sooner, and on a larger scale, than would have otherwise been possible at higher interest rates.

B. The Development Impact of the Loans

In the loan documents, PRE stipulated that each of the sub-loans should result in "substantial" development impact in at least one aspect of development. While it offered no definition of "substantial", PRE did provide six criteria according to which development impact could be assessed. These include: (1) employment generation; (2) foreign exchange generation; (3) management and technical skills development; (4) technology transfer; (5) increased income and economic activity to provincial areas; and (6) poverty alleviation in rural areas.

Table 2 outlines the key accomplishments of each project according to these criteria. Further, it summarizes the impact of the loans in four additional areas, which include: (1) and (2) backward and forward economic and commercial linkages; (3) the provision of products and services to farmers and consumers; and (4) other impacts, which include a variety of different benefits provided as a result of the loans. These additional criteria were included in this assessment in order to provide a more complete view of the overall impact of each loan and of the project as a whole.

It should be noted that the concept of achieving an impact on development through their lending activities was not entirely new to SCB. The Bank's own reports mentions its interest in and intention of promoting economic and social development, although it is not clear the extent to which this is explicitly done, or how they accomplish this.

As Table 2 demonstrates, all of the sub-projects have achieved a clear impact in almost all categories of analysis. For each category, the specific effects are outlined in the following sections.

1. Employment Generation: The total number of jobs created by the over-all project was over 817, and most likely over 840.^{1/} For the fourteen firms which reported net employment, this represents an average of 58 jobs per firm. The total loan cost per job created was \$4,775; however, the total project cost (including the borrowers contribution to the project) per new job was \$8,905.^{2/} It is important to note that the cost of creating these new jobs, expressed in terms of asset-cost per net position, is significantly below the average asset cost of the jobs originally provided by the existing firms. The original asset cost per job of the 10 existing firms averaged \$25,764, while the incremental cost of employment generation averaged only \$6,815 per job for all firms. There was wide variation between and even among industries, as Table 1, column P illustrates.

The project has clearly achieved a significant impact in employment generation. This may be partly due to the relatively large size and the innovative technology of the firms. Average net asset size after the loan is \$660,714, and although all but one firm remains in the small or medium sized category, they are mostly on the larger end of both scales.

The employment generation impact of each of the loans is actually much greater than the data in Tables 1-2 suggest, due to the significant indirect employment stimulated by the projects. However, the time allocated for this evaluation did not permit an estimation of this impact.

No significant net labor displacement was detected in any of the fifteen projects.

2. Foreign Exchange Generation: A full 67% of the sub-projects are involved in exporting, and most of these produce primarily for foreign markets. Several additional firms have plans to export in the future. There was not adequate time to measure the exact foreign exchange impact, although this would be a useful component of the project's final evaluation.

^{1/} Firm #10, the tobacco curing operation, has not reported on employment generation. Since this is a relatively labor intensive industry, the jobs created most likely total well over 20.

^{2/} These figures do not include firms #10 and #15, the latter of which received a very small loan of the residual funds. If firm 15 is included in the project cost per job calculation, actual cost per job created to \$9,057.

3. Management and Technical Skills Development: With the grant funds, the Bank has conducted two seminars explicitly designed to improve the managerial and technical skills of the sub-borrowers, as well as of other entrepreneurs not participating in the project. Further, as a result of the loans, the management skills of at least 47% of the sub-borrowers were improved through explicit assistance from bank staff, training trips abroad, the significant expansion of their scale operations, or the establishment of new enterprises in which they had not previously been involved. However, despite this clear impact, much more could be done in this area with SCB's direct assistance through advisory services.

Skills training was given to the workforces of all of the enterprises assisted. Most was on the-job-training. Several firms were notable due to the magnitude and level of the skills training, including the farm machinery factory, the rubber processing plant, and the tobacco curing operation, which has developed a farm extension program which reaches an estimated 1,500 farm families.

4. Technology Transfer: A full 80% of the borrowers have introduced new technology in their operations; several have even developed this technology themselves. Several firms now serve as technological models for other entrepreneurs in their region or, in two cases, for foreign companies in the same industry. In most cases this new technology was still relatively labor intensive, but offered more effective and lower-cost methods of producing higher quality products.

One firm, a traditional sausage factory, had its own technology upgraded through bank assistance.

5. Income Generation and Increased Economic Activity: All of the firms achieved a clear impact in this area, through the direct and indirect employment creation and the creation or expansion of activities which, in all cases, resulted in distinct backward and forward economic and commercial linkages. Two-thirds of the firms produced these effects largely in less advantaged provincial areas or, in one case, in an area of high seasonal unemployment (#6, Siam Fruit).

6. Poverty Alleviation: Through job creation, particularly for unskilled and semi-skilled workers, all of the firms contributed to this objective. Eight firms (53%) produced a particularly distinct impact here, due to their location in poorer regions or, in several cases, to the especially large number of jobs created.

7. Backward and Forward Economic and Commercial Linkages: With the exception of one firm, which imports most of its inputs (#1, Marine Aqua Seed), all of the enterprises made a significant economic impact through backward linkages (the increased demand for the output of other industries). Thirteen of the firms produced a notable increase in demand for farmers output, while the 14th firm, the farm machinery factory, has stimulated demand for locally-made engines, parts, and raw materials.

All of the enterprises also created new forward linkages (the provision of inputs to other industries), largely by stimulating increased wholesale and retail trade in their products. Several firms also provide improved inputs to farmers (farm machinery, livestock for fattening, and animal feed).

8. The Provision of Improved Products and Services: At least two-thirds of the enterprises are now producing improved quality products for local consumption, as well as increasing the availability of these products on the local market. None of the firms were engaged in service industries.

9. Other Development Impact: Almost all of the borrowers also produced a notable impact in at least one additional area. The most notable of these effects are briefly outlined in Table 2.

One additional area which was an intended objective of PRE was assistance to a newly emerging class of entrepreneurs. Unfortunately while this was frequently discussed within AID as a goal of the project, it does not appear to have been clearly articulated to SCB or well understood by bank officials. Thus, in an effort to assure the project's success, the bank selected only well-established, already accomplished entrepreneurs, rather than those who normally have difficulty in obtaining commercial credit. Therefore the loans did little in terms of encouraging the development of a new group of entrepreneurs, but contributed significantly to increasing the economic activities and prosperity of the existing small and medium scale entrepreneurial class.

C. Conclusions

In its implementation of the loan agreement, SCB very carefully adhered to the agreed criteria and fulfilled all of PRE's stated objectives. Yet in terms of the size of the enterprises assisted, the size of the loans, and the loan recipients, the portfolio of sub-projects looks quite different from PRE's intended target group. Further, although the development impact of these loans conforms to PRE's stated objectives and is indeed quite considerable, the impact does not extend to less advantaged entrepreneurs, nor does it assist a newly emerging class of entrepreneurs. If it was intended that the project focus on that segment of the target group, it should have been made clear to SCB by articulating it more, explicitly in the agreement.

Further, it appears that although some PRE officials had previous experience in Thailand, this experience did not enable them to have a deep enough understanding of less-advantaged small and medium scale agribusinesses in the country's rural areas to design the project specifications in order to reach this intended target group. More background research in Thailand, perhaps by LDC small and medium scale enterprise experts, before the project design stage, could have easily resolved these issues. Having failed to do this, PRE could also have

monitored the project more closely, have more clearly articulated its real objectives, and thereby have revised the course of the project at an early stage.

Despite these issues, the development impact of each loan and of the project as a whole was quite significant. In fact, it appears that in terms of several of PRE's key objectives, the impact may have been greater precisely due to the relatively large size of the enterprises and of the loans. The employment generation, technology transfer, and foreign exchange generation were all considerable, and this may in fact be attributed to the relative size, sophistication, and financial resources of the enterprises and their owners. The data generated by this project suggest that the somewhat larger scale small enterprises (firms on the higher end of the small-scale classification) may be more successful at achieving these multiple objectives than the relatively smaller enterprises in the small-scale classification.

Further, these development impact objectives were achieved by SCB without any explicit methodology for predicting this impact or selecting recipients according to specific criteria. Bank officials appear to have had some implicit notions in mind in identifying borrowers, but the team did not have adequate time to evaluate the exact nature of these implicit criteria or how they influenced subborrower selection. However, they did adhere to the agribusiness requirement and the size specifications for the enterprises, and made an effort to locate many recipients in dispersed and less-advantaged rural areas. One may perhaps conclude that even without explicit methodologies for reaching development objectives, increased resources provided on a commercially sound basis for productive activities by small and medium scale firms rural areas will automatically achieve the desired results, at least the broadly defined targets that PRE has specified.

In conclusion, one final question remains: despite the impact which was achieved by the project, could a greater impact have been obtained? Could the sub-loans have been even more effective in bringing about the desired development effects? Within the portfolio, there is a wide range in the magnitude of the impact in specific areas. For example, one company created 250 new jobs at an incremental net fixed asset cost of \$2,613 per new position, while another generated only 10 new jobs at a cost of \$28,746 each. Might the development impact of the project have been much greater if more companies like the former had been selected? While certainly the multiple effects of each sub-project must be evaluated in toto, and AID does not wish to impose rigid development criteria and methodologies onto SCB's lending procedures (nor would SCB permit this), it would be useful to at least explore using this type of methodology in assessing the relative merits of prospective enterprises competing for scarce resources. One possible way of introducing this type of approach would be to offer a demonstration and discussion of it in a bank seminar on lending to small and medium enterprises, their characteristics, their needs, and their potential development impact. Bank officials, who during the team's visit have already great interest in the approaches used by the team to assess development impact, could then decide for themselves whether they wish to use these approaches and if so, exactly how they wish to use them.

VI. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

A. Findings and Conclusions

1. Objectives

It is difficult to determine with any confidence precisely what PRE intended to accomplish with this project. Was it intended to supply an additional \$2 million plus SCB matching funds for term lending to Thailand's rural small and medium scale agribusiness sector and to observe what would happen?

It is questionable that all of the term subloans financed under this program were additional to what SCB, other commercial banks or the informal sector would have financed in the absence of this program. It is true that these loans are additional to the 13% agricultural lending minimum required of SCB. On the other hand the team was told on several occasions that other commercial banks offered to finance certain projects in this portfolio but the subborrowers opted to place the loan with SCB. We have no hard evidence one way or the other. Our collective impression is that most projects would have found financing, but probably many would have been scaled down in size, or would have had a delayed start-up, and many would have used overdraft facilities or high cost informal sector financing.

Whatever PRE's intended purposes might have been, at the time the project was designed and negotiated, the team believes the actual accomplishments are:

- a. Given the poor initial design of the project, the vagueness of the guidance conveyed to the SCB as implementing agent regarding AID/PRE's interest and objectives sought from the project, and the lack of project management that PRE exercised during the implementation phase, it is remarkable how much of a development impact we found from the 15 subloans.

This may be the most significant finding from the mid-term evaluation; that the technique of utilizing existing IFI's to make term loans on a commercial basis to a target group will achieve significant development impact, even if there are major flaws in the project's design and implementation. It must be said, however, that SCB did a superb job in project selection and loan processing, motivated at least in part, by a desire to demonstrate that it could perform to U.S. Standards.

- b. We found some subjective indicators that there was a modest but positive effect on SCB's institutional development. The PRE loan, as a follow on to the IFC loan of 1978, probably played a supportive role to SCB's efforts to increase its term lending portfolio, develop procedures, recruit and train staff to evaluate requests for term lending, even if the BAS did not function as was hoped.

We are uncertain whether the inadequacies of the BAS function resulted from SCB resistance to change, the shortcoming in PRE project management or the fact that institutional change occurs slowly and PRE's time horizon is unrealistically short. SCB was not made aware of the full and complete intentions behind PRE's project. In the absence of adequate PRE project management, SCB performed in a reasonable manner.

- c. The most significant rationale for this project appears to be its utility as a test of PRE's contention that term lending to small and medium scale agroindustry is an important means to channel private sector resource flows toward important national development objectives, and that IFI's, if provided with resources and guidance, will finance commercially viable projects that have significant development impact. To the degree this hypothesis is proven valid, it can point to a mechanism by which additional resources, either those of the banking institutions, the host government or AID donors can be effectively employed. Project implementation can also point to possible pitfalls and identify other constraints that are complementary to the inadequacy of credit.
- d. With regard to the impact of this program on other commercial banks in Thailand, we note that SCB utilized the project, particularly the grant funds, to publicize the lending program. But there is no indication that other Thai banks showed more than a passing curiosity about it; in fact, there were a few instances, where SCB utilized the lower blended interest rate to develop new business for itself by attracting customers away from other banks.

In brief, we believe the project objectives, though imprecisely described in the documentation, were reasonable and justified the activity.

2. Assumptions

Comments on assumptions underlying project rationale:

1. Is there evidence that there are a significant number of entrepreneurs in the target group who seek term credit facilities and whose expansion needs are curtailed by the absence or shortage of term credit at commercial bank rates and terms?

From the available data and interviews, the team is of the view that commercial banks in Thailand are normally not "loaned up". There are occasions when Government monetary policy will produce a credit squeeze to achieve some macro economic effect. In those instances the burden falls more heavily on the borrower who has drawn down his overdraft line, not the borrower of term loans.

Nevertheless partly due to institutional rigidities, partly because small scale entrepreneurs cannot prepare project designs adequately to satisfy bankings institutions, the target group has difficulty in obtaining adequate term lending and must resort to the informal market. Thus, while aggregate credit may be sufficient, the character of the funds that are available probably result in inadequate credit facilities for the target group.

2. Is lending to these entrepreneurs subject to other constraints, besides the availability of term credit that can be overcome or mitigated by a business advisory service or other services performed by Commercial Banks?

The team was told on a number of occasions that a major constraint to term lending for the target group is the scarcity of well designed projects with adequately prepared credit applications by credit worthy entrepreneurs. When a well designed project comes along, major banks tend to compete in offering the required financing. Thus a well functioning BAS would seem to be a significant marketing tool for a bank like SCB.

The performance of the BAS of the SCB, gives little assurance that one can rely too heavily on their services at this time. We believe this concept has not yet been adequately tested for a final judgement to be formed. SCB admits that they did not fully understand what IFC or PRE had in mind for BAS. PRE project management should have identified the problem earlier and helped SCB develop the

service. The Team's attempts to clarify PRE's intentions were well received by SCB senior officials, and some willingness expressed to enhance the BAS. But SCB's level of commitment to this effort has yet to be tested.

3. Are commercial banks an effective implementing agent to supply the needed term credit and to assist in overcoming these constraints?

The team believes the conduct of this project suggests that the answer to this question is probably in the affirmative, with the qualification that the institution must be receptive to this role and the institutional development aspect of any project designed to foster such an approach must be managed properly. This probably means substantial participation in the local setting by the aid donor.

3. Need for External Resources

The need for external resources to create domestic credit facilities is not readily apparent. Thailand, like most developing countries, suffers from a scarcity of resources. Additional resources provided by aid donors will always find utility, at least up to the recipient's absorptive capacity. The resources of Thailand's banking system have been strained to meet both the credit needs of the private sector and the deficits of the Government budget. During the period of PRE's loan commercial banks were called upon to purchase Thai Treasury Bills, so that the Government's budget deficit could be covered. This reduced the availability of credit for the private sector.

As was pointed out in the PRE study entitled "Feasibility of Utilizing Local Currencies for Private Sector Development" dated February 1984 (prepared by L. Rudel), a government may utilize its monetary controls to shift resources between its public and private sector.

The team points out, however, that the injection of additional resources by an AID donor into the banking system, earmarked for term lending to a special target group, addresses two problems simultaneously, (a) it adds to the total credit resources available, and (b) it sets aside funding of a certain character (in this instance term lending). It may be that the total quantum of credit available to the private sector is sufficient to meet demand at the market interest rate, but that medium term funds are not sufficient. In that event, the appropriate intervention would be to change the character of the funds available, and not necessarily to add additional resources.

If it were determined that the deficiency in the banking system were not the quantum of credit available but rather the banking systems inability to provide term lending, then there are interventions, other than injection of additional resources, that could be used to address that specific problem. If commercial banks were reluctant to build up a term lending portfolio because their deposits were all (or nearly all) short term, and they feared disintermediation, then a well insulated rediscount facility, might be a more efficient way to solve that problem. A smaller amount of aid might affect a larger amount of credit for the target group.

If AID is providing dollar resources to Thailand based on a "balance of payments" rationale, then the local currency generated as a bi-product of that program could be utilized for credit expansion, along the lines of PRE's model project.

4. Interest Rates

The team has a number of observations with respect to interest rates:

1. The Loan Agreement specified the purpose, to make available credit "... at more favorable rates than are currently available." But PRE normally argues against lending at "below market" rates. It is difficult to determine the "market rate" for credit in Thailand, due to the imperfections in the market and the multitude of government regulations. But in this instance, the project made it possible for SCB to offer loans below the prevailing interest rate for similar credit by passing on the concessionality of the AID funds to the subborrower.
2. In light of the artificiality of "market rates" in Thailand, we wonder if some stratification of interest rates might not be a cost/effective inducement to encourage investment to certain target groups and/or geographic areas. If borrowers have a traditional orientation towards overdraft facilities, would it be useful to make term lending relatively cheaper? If banks are reluctant to absorb the cost and risk of processing small loans to small scale entrepreneurs, could they be compensated by increasing their spread? If investment in the rural area is to be encouraged over investment in Bangkok, should this not be reflected in the respective cost of credit? We note that USAID Thailand's rural industrialization strategy argues against "... costly and distorting incentives for up-country location", but wonder nevertheless,

whether the relative cost of credit might not provide an effective means to channel private sector activity into priority areas.

3. The cost to the US taxpayer, of this project is quite modest, comprised of the grant of \$150,000 plus the concessionality of the funds (as measured by the cost of funds to the US treasury vs. the loan interest rate; about 11% vs 8%), over the average term of the loan. Thus the cost per year declines from \$60,000 in the first year to about \$6,000 in the tenth year. The team speculated whether there is any need to provide concessional funding for this kind of project. If not, then there may be an argument for AID/PRE to seek congressional authority to draw on US treasury funds and on-lend them at prevailing treasury rates, rather than compete, within AID, for the limited amount of highly concessional appropriations. Even if there is a need for some concessionality, it may be more efficient to seek appropriations of grant funds to pay the necessary points, than to utilize regular AID appropriated loan funds.

5. Replicability

The experience of this project supports the hypothesis which it was designed to test - that intermediate financial institutions in LDC's, such as the Siam Commercial Bank, are an effective mechanism by which resources can be channeled to private small and medium scale agribusiness for term lending needs, and that significant development impact will result.

6. Duration of Term Loans

The terms of the subloans disclose what may be a prevailing bias in the Thai banking system to keep the term of the loan as short as can be justified by the cash flow of the project. No loans were made at the maximum 8 year term authorized, seven loans were made below the minimum term authorized.

7. Marketing the Loan

SCB's marketing effort to make the PRE funds available to borrowers was highly efficient. Perhaps these efficiencies were achieved at the cost of some development objectives that PRE might have wanted. Given the limited lending resources made available to SCB under this project, SCB identified 15 entrepreneurs who were known to them and were known to be preparing suitable projects that suit this finance facility. Had the magnitude of resources been significantly greater, SCB would have had to utilize other marketing techniques (i.e. broad based involvement of the branch network; mass media etc.)

B. Recommendations

1. Project Design

It should be recognized that the Siam Commercial Bank loan project was the first for the Bureau for Private Enterprise. Careful review of the IOP, IP and Project Agreement suggest that PRE should use Agency resources to a greater degree in its project design activities. In particular there is a need to devote more attention to the economic situation in the country. Economists in the Asia Bureau and the Bangkok Mission could have been helpful in this respect. There is also evidence that PRE did not fully understand the small and medium scale enterprises in Thailand that it was attempting to target. While SCB was able to build its portfolio according to the guidelines provided by PRE, there is some evidence that the guidelines did not define the target group PRE really wanted to reach. There are private sector and small and medium scale enterprise capabilities in S&T that could have been tapped for this purpose. Agribusiness credit, particularly in the Thai context is another complicated subject where PRE could have benefited from assistance and, in turn designed a more effective project. The Evaluation Team recommends that PRE give careful consideration to using Central Bureau and Mission assistance in the course of developing its loan/grant projects.

2. Implementation Plan

We believe the Bureau for Private Enterprise should take the time to develop a thoughtful implementation plan which specifies what the Business Advisory Service is all about, how it should function and what grant financed activities should be undertaken to support the process. IFC assistance could be helpful, since the concept originated with that organization. PRE should then discuss its approach with Siam Commercial Bank and obtain its agreement or incorporate its amendments. All available funds (perhaps \$75,000) should eventually be utilized and the term of the Grant should be extended while funds are still available. Every effort should be made to integrate relevant USAID Thailand Rural Industrial Strategy components into this institution-building process, as these strategies evolve. This will permit the BAS concept to mature over a longer period of time than PRE Grant funds could otherwise allow.

3. Continuity

One should also consider that SCB would be understandably reluctant to establish new procedures and practices for a program of this modest magnitude without any indication of PRE or AID's intention to add new resources to the program once the initial tranche of \$2 million was fully committed. The branch managers have now become aware of this program and would like to offer this facility to their customers.

Unfortunately the AID funds are now fully committed. It would be highly desirable to find a means to continue this effort with SCB, in order to consolidate the gains achieved in institution building, and to encourage SCB and perhaps other lenders to press forward.

The PRE loan provides for a two year grace period and repayment over the remaining 8 years. The portfolio of 15 subloans has an average term of 5 to 6 years. Reflows should therefore begin in the third year. The SCB/AID program could be continued without further commitment of AID funds if SCB were willing to utilize loan reflows and match them, perhaps on a 80/20 ratio, with SCB's own resources. There is some indication that SCB might be receptive to such a proposal if this change in the agreement will not result in additional AID audit requirements to be imposed on SCB. Perhaps this second round of subloans can be directed at smaller scale enterprises than the first round.

The project deserves to be continued. The accomplishments to date, particularly with respect to the interest and enthusiasm of the senior officials of SCB for term lending to the small and medium scale agrobusiness sector should not be left to atrophy.

The rural industrialization project being designed by USAID Thailand may be able to build on the experience and momentum generated by the PRE/SCB Loan. An opportunity exists for USAID Thailand to capitalize on this recent experience.

4. Focus on Target Group

The SCB focused on the largest scale segment of the target group which met the criteria of the loan agreement. It is this size of enterprise with which SCB finds itself most comfortable. We believe (but the documents do not specify) PRE intended to utilize this project to shift SCB's focus to a new class of borrower; one considerably smaller in scale. This did not happen. We believe the definition used to specify maximum size of enterprises eligible under the loan may have been too large.

5. Foreign Exchange Risk

The requirement for the subborrower to assume the foreign exchange risk of loan repayment to the US Government is a bad idea. The Government of Thailand might be asked to guarantee the risk. Alternately, some system of insurance could be utilized, whereby subborrowers are allowed to pay a small annual premium in return for coverage. This is the practice with respect to the AID/PRE loan in Kenya.

6. Exclusivity

The AID/PRE loan established an exclusive arrangement with SCB to implement the program. SCB is one of Thailand's largest commercial banks; yet it only has an 8% market share. We question the propriety for AID to develop exclusive arrangements with one commercial bank and caution against such arrangements in the future.

7. For the convenience of the reader, the specific recommendations contained in the body of the report (pages 26-27) are repeated below:

- a. The Bureau for Private Enterprise (PRE) must translate the vague language of the Agreement into a concrete and coherent Agribusiness Advisory Service (ABAS) proposal to which the Siam Commercial Bank can respond. There is no evidence that SCB understands the concept in the collective mind of PRE. It would seem that neither Washington-based IFC nor PRE have the local presence to ensure that the concept is understood and implemented. If permissible, the term of the Grant should match the term of the Loan.
- b. PRE must indicate whether it intends to follow the current Project with a similar or larger Project or advise if, having conducted this experimental Project, it is pulling out and leaving on-going activity of a similar nature to SCB or USAID Bangkok or both. Feedback from the SCB Seminar, Financing Agro-Business, September 1984, indicates there is growing Branch interest in the loan concept, to which the Agribusiness Advisory Service concept is related.
- c. Whether or not PRE stays in this activity in Thailand long-term, it needs the help of an Agribusiness IQC to develop and implement a BAS plan for its worldwide agribusiness loans with grant components. PRE's Investment Office has neither the time nor agribusiness experience to undertake this activity.
- d. It is very important that USAID Thailand's "Strategy for Rural Industrialization in Thailand" be reviewed in terms of the role IFI's in general, and SCB in particular might play in implementation. Its focus on Agro-Processing and its recognition of the need (Small Enterprise Assistance Program) for consultation services and entrepreneur training might provide the basis for the long term USAID commitments that will be needed, particularly if PRE sees its involvement as ending with this Project.

- e. Finally and in concert with the above activities, SCB should review its experience with small and medium size term loans for the agribusiness industry. Is it a promising business development activity? Is it possible to reach further down into the rural agricultural class and begin to develop a new target group and entrepreneurial class. The current list of Subborrowers does not represent a new target group. The current portfolio does not require an agribusiness advisory service much beyond what is now provided. Additional discussions should be held between SCB and USAID/PRE and Mission to determine if the loan and related business advisory service concepts can be developed to a greater extent than is now the case.

MID-TERM EVALUATION
AND
COMPARATIVE ANALYSIS
KENYA COMMERCIAL BANK/SIAM COMMERCIAL BANK

SCOPE OF WORK

I. The Projects

KENYA

The loan to the Kenya Commercial Bank/Kenya Finance Company (615-T-018), a public institution, in the amount of \$2,500,000 is to provide on-lending, financing and servicing to Kenyan owned or controlled small and medium-sized private enterprises particularly agribusinesses, with emphasis on those located in rural districts of Kenya. In addition, A.I.D. also provided a \$250,000 grant to cover training expenses for bank employees in order to provide Business Advisory Services (BAS) to rural, Small & Medium Scale Enterprises (SME), and to improve the bank's agribusiness credit evaluation process. The grant will also assist in the expansion of these capabilities to regional/branch offices.

The loan agreement was signed on January 6, 1983, with the KCB providing matching funds of \$2,500,000. Total commitment: \$5,250,000. The estimated project completion date is September, 1994.

Total funds disbursed by September 30, 1984 are expected to total \$1,040,000. As of August 22, 1984, this project had 27 active sub-loans. The grant activity is scheduled to begin in early October 1984 with the arrival in Nairobi of an IESC contractor to work with Bank personnel to finalize plans for Seminars scheduled for November.

THAILAND

The loan to the Siam Commercial Bank (493-T-032), a private institution, in the amount of \$2,000,000 was to create a facility to be managed by the Bank, to provide on-lending, financing, and servicing to private Thai-owned or controlled small and medium sized agribusiness projects located in

districts outside of Bangkok. A.I.D. also provided a \$150,000 grant to provide training to Bank personnel, in agribusiness term lending. The agreement was signed on September 21, 1982, with the Bank providing matching funds of \$2,000,000 for a total commitment of \$4,150,000. The estimated project completion date is September 30, 1992.

Total Disbursed to Date: \$2,000,000

Although this evaluation is viewed as a mid-term review, this project is fully disbursed, with 15 sub-loans.

II. Purpose And Timing Of The Evaluations

The evaluations are being conducted at this time to provide PRE with an objective analysis of the success and/or failures of these projects. These loans were among the first projects designed by PRE, and in the past have been subject to considerable scrutiny, including Congressional inquiry.

The overall study will begin in Nairobi on October 1, 1984 and be completed in Thailand on or about October 31, 1984.

III. Questions The Evaluation Team Will Answer

The evaluation report should address the following essential questions:

General

1. Have the banks met the objectives of the loan and grant agreements?
 2. How are these projects contributing to A.I.D. overall development goals? Host country development goals? PRE bureau overall strategy?
 3. Do these projects complement other agricultural banking activities in their respective countries? How?
 4. Are there any host government or institutional policy constraints which prevent or inhibit the ability of these banks to accomplish the project objectives? If so, describe them, and provide recommendations on how these may be overcome and how AID/PRE might avoid such constraints in the future?
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5. What are the important host government regulations or legislation affecting the agribusiness sector which have helped or hindered the goals of the lending program?

6. Have there been any significant external phenomena which played a role in the success or failure of these projects?

7. Are the banks involved now in new activities as a result of the A.I.D. loans? If so, what is the likelihood for sustainability w/o future A.I.D. funds? What benefit have the AID loans had for the banks involved? What has been the impact on the banks activities?

8. What risks did AID ask the banks to take? How did AID plan to compensate the banks for any risks?

-Have the banks been successful in managing these new activities and the risks involved?

9. Are these programs being marketed to and through the branches and to the agribusiness sector? If so, how? Is this marketing successful?

10. Is AID assisting in the marketing in any way? If so, how? If not should it be, and if so, how?

11. Did the sub-borrowers know that U.S.A.I.D. was involved when they borrowed the money?

12. Are business advisory services anticipated under the project being provided to client companies by the bank? Why or why not? Have the AID grant funds intended for training been used to help meet the specific needs of the bank in providing needed services to clients or in better analyzing/managing an agribusiness loan portfolio? If so, how? If not, why not?

Will such training be on-going or institutionalized within the bank? How was the training disseminated to other bank employees dealing with potential sub-borrowers?

13. Would the banks have lent to these agribusinesses, w/o AID/PRE assistance on similar terms?

14. Are bank established monitoring procedures adequate to ensure portfolio quality throughout the life of the loans?

Kenya Specific

1. Has other donor activity been a constraint to implementation of this project? If so, why and how?

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2. Even though the advisory services grant is just getting underway, do Seminar plans appear sufficient to meet their needs? What have been the reasons for the delays in organizing and implementing the training program?

3. Does the bank have established procedures to ensure that the subloan re-flows go to similar, new borrowers during the life of the loan? If not, why not and how does KCB plan to proceed with reflows?

Thailand Specific

1. Has SCB lent to these firms before? If so, are terms and conditions of A.I.D. facility different and, if so, why?

2. Had SCB provided term-credit in the past? If not, would they have w/o A.I.D.'s facility?

IV. Team Composition

KENYA: The Kenya team will consist of two A.I.D. direct hire employees, two U.S. contractors and a Kenyan economist provided by the Mission. Coopers & Lybrand's Nairobi office will provide the services of a junior financial analyst, if needed.

THAILAND: The Thailand team currently consists of two A.I.D. direct hire employees and one U.S. contractor. We are still looking for a U.S. banker. Coopers & Lybrand will provide the services of a junior financial analyst if needed.

All U.S. team members will participate in the pre-departure workshop in Washington D.C. on September 27, 1984 and perform the necessary field work as assigned in Kenya and Thailand.

Mr. Ludwig Rudel - a U.S. contractor, will lead this team. In addition to writing the two evaluation report findings, Mr. Rudel will assess the macroeconomic development impact of the loans in both countries. He will also be responsible for preparing a separate comparative analysis of the two institutions' activities under the A.I.D. loans.

Mr. Charles Gormly - Director of the AID/PRE Office of Policy and Program Review will primarily be responsible for ensuring that the evaluation methods used and the commercial and developmental lessons learned are reflected in ongoing AID/PRE plans, programs and projects. PRE's private sector lending

program, through IFI's and coupled with grant technical assistance funds for institution building, is central to the Bureau's private sector strategy and its hopes for replication at the Mission level. In addition to assisting with all aspects of team activities, Mr. Gormly will prepare an analysis of the grant funding under each project.

Ms. Christopher Mock, from the AID/S&T Office of Rural Development will analyze the individual subloan activities and assess the development impact of the loans on the down-scale.

Mr. Geza Szurovy, Assistant Vice President, International Banking, Bank of Boston, will accompany the team to Kenya to prepare the institutional analysis of the Kenya Commercial Bank/Kenya Commercial Finance Company loan.

Mr. Peter Ochieng Odoyo, a USAID/Nairobi, Foreign Service National and program economist will accompany the team to visits of the subloan activities and provide general assistance to the team, as necessary.

V. Methodology and Procedures

Two weeks will be spent in each country to review the loan portfolios and to visit selected sub-loan activities. The final report and comparative analysis will be prepared in Thailand. An additional week may be required for this purpose. A predeparture workshop will be held for the team on September 27, 1984.

- All team members will be provided with briefing books containing pertinent project documentation.

VI. Funding

Funding will be provided as follows:

Mr. Gormly & Ms. Mock will be charged against PRE FY 1984 O.E. account. Mr. Rudel and Mr. Szurovy will be funded under existing contractual arrangements the Bureau has with outside organizations. Mr. Peter Ockienng Odoyo will be funded by USAID/Nairobi.

The team leader will receive an additional \$3000 to be used for miscellaneous expenses incurred by the team in-country. For example, secretarial assistance, car rentals, interpreters, office space, etc. Receipts should be submitted for the use of these funds.

VII. Reporting Requirements

1. The following topics will be addressed in the two final reports (one for each project):

- A. Economic Overview
Economic context of each country setting since signing of loan, including the agribusiness and financial sectors, and the institutional and legal (policy) frameworks affecting them.
- B. Institutional Review
Organizational development
Management
Lending procedures
Characterization of portfolio
Analysis of financial performance
Training programs, if any
Procedures for screening sub-loan applications and for monitoring the portfolio
Grant Funds for Business Advisory Services
- C. Analysis of Subloan Activities
Amount & terms of loan
Repayment performance (if any)
Development Impact
- D. Accomplishments vs. objectives including:
Those achieved/not achieved
Why/why not
Unplanned achievements
- E. Lessons Learned
- F. Recommendations for redesign, if necessary
- G. Sustainability
- H. Replicability

2. Format of the Report

Each of the two reports will contain the following sections:

- Executive Summary (guidelines attached).
- Basic project identification data facesheet (attached).
- Statement of Conclusions (short and succinct with topic identified by subhead) and recommendations (corresponding to conclusions and worded, whenever possible, to specify who should take the recommended action);
- Body of Report (which includes a description of the country context in which the project was developed and which provides the information on which the conclusions and recommendations were based); and
- Appendices as necessary (including, minimally, the evaluation's scope of work and a description of the methodology used and, possibly, methodological recommendation for future evaluations).

3. Comparative Analysis

A third report will be submitted which does a comparative analysis of the two projects. This particular piece will be most useful to PRE in terms of project replicability in other countries of the overall conceptual framework and approach utilized in the two projects evaluated. The analysis should focus in two major categories of "lessons learned" or "conclusions drawn":

1. Those design/implementation elements that appear to be generic -- i.e. they may be applicable in other environments when developing similar projects; and
2. Those design/implementation elements that appear to be country and/or institution specific and must be so tailored in each case.

In completing this analysis, particular attention should be given to the following:

1. Motivation: What are critical factors motivating commercial lending institutions to participate with AID in this market -- i.e. lending and other services to small and medium sized agribusinesses.

2. Management: Lessons acquired about effective management of an agribusiness lending portfolio.

3. Training: Expertise required of bank staff, which may be gained through training programs, in order to be effective in analyzing agribusiness investment opportunities.

4. Services: Types of services generally required by client companies under this type of lending program and how best to provide them.

Any other lessons which may be learned from the Kenya and Thailand experiences and which may have relevance in future project design efforts also should be articulated.

4. Submission of the Report

The draft report should be submitted to the PRE Evaluation Officer no later than 60 days following commencement of the evaluation.

Drafter: SReinhardt:sw:0310L:09-28-84

ATTACHMENT II

List of Meetings

I. Siam Commercial Bank Officials

1. Mr. Prakit Pradipasen, Bangkok Central Office
2. Mr. Kriang Kiatfuengfoo
3. Mr. Wirut Ruttanaporn
4. Mr. Meechai Angsurat
5. Mr. Surat Worawatpibul
6. Mr. Worapong Tantadilok, Beach Manager, Phanat Nikhom
7. Mr. Chokdee Nart-khak-nan-nout, Area Manager, Udorn Thani
8. Mr. Chaisit, Branch Manager, Khon Kaen
9. Mr. Ming, Branch Manager, Kosoompisai
10. Mr. Somphan Patarakamol, Branch Manager, Sriracha
11. Mr. Somchai Suntarat, Area Manager, Hatyai

II. Sub-borrowers/Site Visits

1. Marine Aqua Seed Co., Songkla - Ms. Linda Bunnag
2. Permpoon Roi-et Rice Mill, Roi-et - Ms. Permpoon
3. Pongsathorn Ltd., Khon Kaen - Mr. Jarat
4. Siam Livestock Co. Ltd., Chonburi - Mr. Vallop Tantivejakul
5. Nipon Srisuk, Chonburi - Mr. Nipon Srisuk
6. Thanyaratana Co., Ltd., Chonburi - Mr. Vichai Amaralikit
7. Piamsak Nikomchai-Prasert, Panat Nikom - Mrs. Nikomchai-prasert
8. Thaisan Rubber Export Co., Songkhla - Mr. Songchai Chavasiri
9. Kosin Jongchotsirikul - Mr. Suphakit Namsiripongphan

III. USAID/US Embassy Officials

1. Mr. Robert Halligan, Mission Director
2. Mr. Det Trisahd, Office of Private Enterprise and Rural Employment
3. Mr. Mit Pramuanvorachat, Private Sector Officer
4. Ms. Alexi Panehal, Private Sector/Housing Officer
5. Mr. John Lyle, Economic Officer, US Embassy, Bangkok

IV. Others

- Mrs. Vongthip Chumpani
Vice President, Bangkok Bank, Central Office
- Mr. Pramook Jirdpongsatorn
Managing Director, PR. Inter Trade Co., Ltd.
- Mr. Supachai, Bank of Thailand